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Date: September 12, 2014

**TO: MEMBERS, AUDIT COMMITTEE**

<b>I. AGENDA ITEM # AND TITLE:</b>	Open Agenda Item 5 - Whistleblower Hotline
<b>II. NAME AND PROGRAM:</b>	Andreas Acker, Executive Vice President and Chief Administrative Officer, Human Resources; and Dante Robinson, Chief of Internal Affairs, Internal Audit
<b>III. ACTIVITY:</b>	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
<b>IV. JUSTIFICATION:</b>	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

**V. EXECUTIVE SUMMARY:**

This report is a recap of the quarterly Ethics Allegations activity and totals for the 2<sup>nd</sup> quarter of 2014.

**VI. ANALYSIS:**

There were 106 reports received for the second quarter from the following sources:

- a. Ethics Hotline – 48
- b. Management Referral – 34
- c. Privacy Office - 24

There were 30 substantiated allegations; 28 involved employees transmitting their own personal identifying information (PII) or of their family members, relatives, policy holders, and claimants to a non-State Fund e-mail account. None of the 28 substantiated privacy allegations were material to State Fund's financial statements, although the majority were in violation of State Fund's Code of Conduct and its supporting policies.

State Fund continues to educate its employees on the importance of protecting PII and proprietary information. This education is completed through various training courses including annual Code of Conduct training.

Human Resources continue to take an active role in determining and administering the appropriate level of discipline when an employee commits a security breach. The majority of the 28 substantiated allegations resulted in the employee receiving a memo to the supervisor's drop file and memo to their Official Personnel File as these actions are a violation of the Code of Conduct. A first time offense has no adverse impact to an individual's performance appraisal. However, multiple offenses may require further disciplinary action.

**VII. RECOMMENDATION:**

Management works with Human Resources and the Programs to implement corrective actions and to execute disciplinary action. Since the majority of the investigations are privacy-related, both personal and business, management will continue to educate State Fund Workforces on their responsibility to prevent the improper disclosure or use of private/confidential information.

**VIII. APPENDIX:** 2014 2<sup>nd</sup> Quarter Ethics Hotline Report



**APPENDIX: 2014 2<sup>nd</sup> Quarter Ethics Allegations Report (Open Session)  
April 1, 2014 – June 30, 2014**

Human Resources and Internal Affairs investigate the majority of the matters referred through the Ethics Hotline, California Whistleblower Hotline, Management Referrals, and Privacy Office.

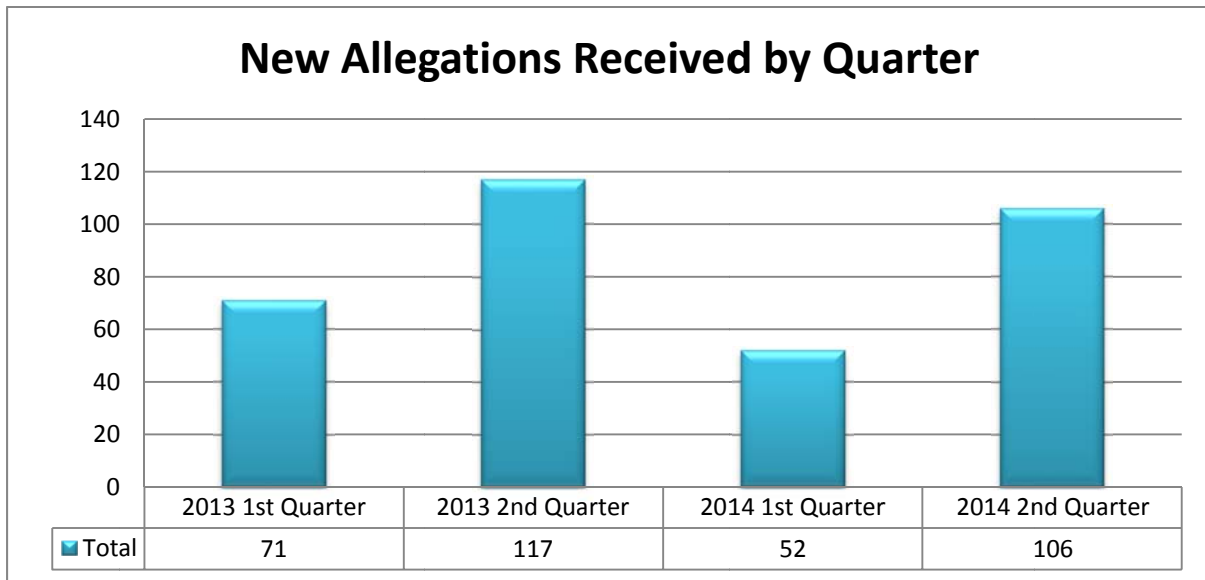
For the 2<sup>nd</sup> quarter, there were 106 new allegations received, 69 completed investigations and 101 investigations are still pending.

From the 69 completed investigations, 39 were unsubstantiated and 30 were referred to Managers Services for action. Managers Services reviewed and completed 23 out of the 30 completed investigations and 7 are still pending for action. Disciplinary actions range from a memo to Official Personnel File (OPF) and supervisor's drop file to adverse action.

The table below lists the new allegations received in the second quarter.

Allegation Type Row Labels	Source			Total
	Ethics Hotline	Management Referral	Privacy Office	
Accounting and Financial Control	2	1	0	3
Claims Practices	1	1	0	2
Compliance and Regulatory Matters	1	0	0	1
Conflict of Interest	2	0	0	2
Data Security Breach	24	3	24	51
Human Resources	16	28	0	44
Information Security	0	0	0	0
Other	2	1	0	3
Vendor and Contract Relations	0	0	0	0
<b>Total of New Allegations</b>	<b>48</b>	<b>34</b>	<b>24</b>	<b>106</b>

The chart below shows a comparison of new allegations received in the 1<sup>st</sup> and 2<sup>nd</sup> quarter of 2013 and the 1<sup>st</sup> and 2<sup>nd</sup> quarter of 2014.



The chart below shows a comparison of completed investigations in the 1<sup>st</sup> and 2<sup>nd</sup> quarter of 2013, and the 1<sup>st</sup> and 2<sup>nd</sup> quarter of 2014.

