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Date: February 17, 2017

**TO: MEMBERS, GOVERNANCE COMMITTEE**

<b>I. AGENDA ITEM # AND TITLE :</b>	Open Agenda Item 4 – Governance, Compliance and Privacy Update
<b>II. NAME AND PROGRAM:</b>	Governance, Compliance & Privacy Office
<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:**

Compliance reporting includes the following:

- New legislation passed related to travel restrictions, ORSA report filing, 2016 compliance training results, and a summary of reported ethics and privacy related issues for the fourth quarter and 2016.

**VI. ANALYSIS:** The following summarizes compliance related activity for the period and is in alignment with the Compliance Model<sup>1</sup>:

**Clear Written Standards of Conduct, Policies & Procedures**

**A. New Legislation – Privacy effective 1/1/2017**

**a. AB 1887 (Low)**

The legislation adds a section to the Government Code<sup>2</sup> prohibiting agencies from:

- Requiring employee travel to states which have enacted laws after June 26, 2015 which are discriminatory towards individuals or families based on gender identity, orientation or expression.
- Approving requests for state funded or sponsored travel to those same states, with certain specified exceptions.

And: Requires the California Attorney General's Office to maintain a current list of states subject to the travel prohibition.<sup>3</sup>

**Operational Impact** – Process development to comply with the statute including document review and response to out of state travel requests.

<sup>1</sup> All Governance reports are grounded in State Fund's Compliance Framework – resource USSG Ch. 8 Part B2.1(b)

<sup>2</sup> CA Government Code § 11139.8

<sup>3</sup> Ibid. § 11139.8 (c)(7) State listing: <https://oag.ca.gov/ab1887>

## B. 2016 Own Risk and Solvency Assessment (ORSA) Report

State Fund submitted its ORSA report, as attested by the Chief Risk Officer, to the California Department of Insurance on December 16, 2016<sup>4</sup>.

As allowed under the Insurance Code<sup>5</sup>, the ORSA report will be referenced in State Fund's Corporate Governance Annual Disclosure due June 30, 2017.

### Effective Training, Communication, and Awareness

#### 2016 Compliance Training

**Goal:** Achieve 98% Workforce compliance rate (100 percent consultants and 98 percent employee) for the organization's mandatory training.

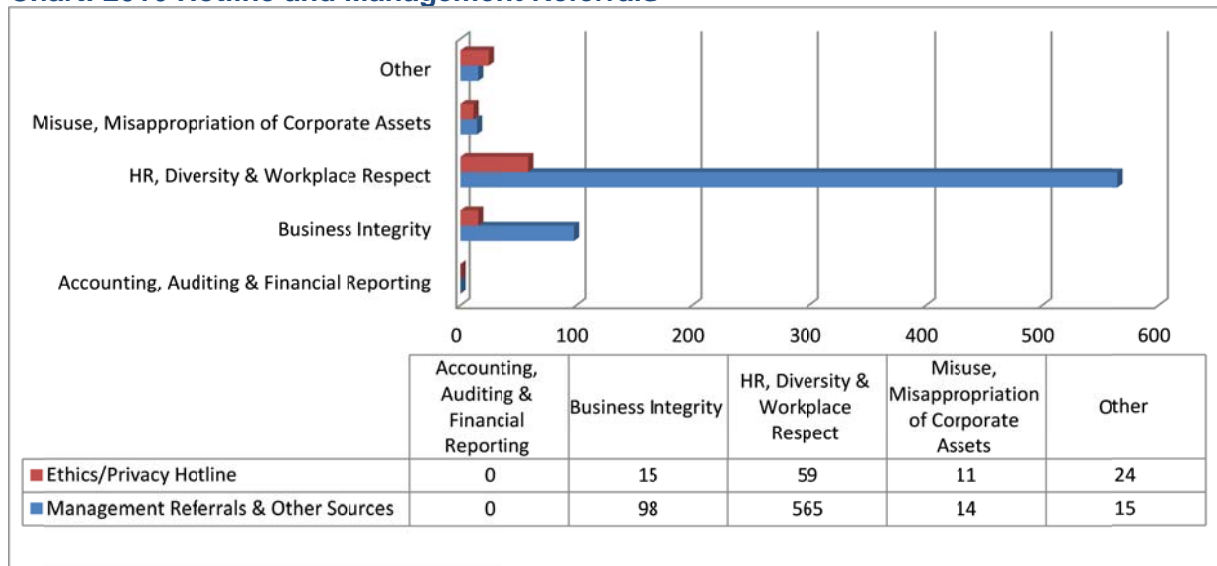
A 99.3% Workforce compliance rate was achieved for the three mandatory courses for 2016: Code of Conduct, Ethics & Acknowledgement; Security Awareness & Proprietary System Notice Acknowledgement and Anti-Fraud.

State Fund's employee<sup>6</sup> compliance rate was 99.6% for the courses. Mandatory compliance training compliance rate for contingent workers<sup>7</sup> was 97%. Physical and logical access was disabled for 14 contingent workers pending training completion.

### Consistent monitoring, evaluation & reporting

#### Ethics & Privacy Reported Issues

**Chart: 2016 Hotline and Management Referrals**



<sup>4</sup> ORSA report pursuant to Cal. Insurance Code § 935.1

<sup>5</sup> Corporate Governance Annual Disclosure pursuant to Cal. Insurance Code §§ 936.1 et seq.

<sup>6</sup> Active State Fund employees as of 12/31/16: 4,246

<sup>7</sup> Active State Fund contingent workers as of 12/31/16: 430

## Analysis 2016 vs 2015

Hotline volume from 2015 to 2016 declined by 25% and management referrals increased by 72%. The same trend occurred in Q3 and Q4 2016; with hotline reports declining by 16% and management reports increasing by 17%.

The hotline report volume is influenced in part by the reduced number of suspected privacy incident reports: 23 in 2015 versus 13 in 2016. The Privacy Office observed a 50% decline (118 in 2015 to 59 in 2016) in preventable internal privacy incident reports. The reduction in suspected or reported privacy incident reports can be attributed to privacy awareness messaging and quality assurance programs implemented by Claims and Workers' Compensation Legal Department.

Human Resources (HR) related issues continue to be the most reported category (78%; 624/801) in 2016. Eighty percent of HR reports were related to performance, inappropriate/offensive behavior, and attendance issues. This trend aligns with other industries as reported in the *2015 Navex Global Ethics and Compliance Hotline Benchmark* report.

**VII. RECOMMENDATION:** Informational only

**VIII. PRESENTATION EXHIBITS:** None

**IX. APPENDIX:**

### I. Report Allegation Categories and Definitions

The following definitions support the classifications used in Chart 1 above

**Accounting, Auditing, and Financial Reporting:** Forgery, Accounting and Financial Control

**Business Integrity:** Falsifying Records, Privacy and Data Security Incidents, Theft, Compliance and Regulatory Matters, Information Security, Vendor Relations, Claims, Policy, Legal, and Other Business Practices

**HR, Diversity and Work Place Respect:** Attendance, Code of Conduct Violation, Conflict of Interest, Equal Employment Opportunity-Discrimination, Retaliation and Sexual Harassment, Favoritism, Inappropriate/ Offensive Behavior, Hiring Practices, Performance

**Misuse, Misappropriation of Corporate Assets:** Fraud, Misuse/ Abuse of Time or Resources

**Other:** Types of misconduct that fails to fall into the above categories such as Safety, Assault or Environmental Protection Compliance.