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Date: August 7, 2015

**TO: MEMBERS, GOVERNANCE COMMITTEE**

<b>I. AGENDA ITEM # AND TITLE :</b>	Open Agenda Item 5 – Governance, Compliance and Privacy Update
<b>II. NAME AND PROGRAM:</b>	Governance, Compliance & Privacy
<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:**

Second quarter compliance reporting includes: Annual California Whistleblower Program notice, Biennial Insurer Supplier Diversity Survey, Office of Foreign Asset Control (OFAC), update to the 2015 compliance training plan, and a summary of reported ethics and privacy related issues.

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

**Consistent Monitoring, Evaluation and Reporting**

***California Whistleblower Protection Act Annual Notification***

In compliance with *Cal. Gov't Code §§ 8548.2 and 8548.3*, on June 16, 2015 State Fund provided by email to all employees the annual Whistleblower communication and memorandum about the State Auditor's Whistleblower Program. The 2015 whistleblower posters are displayed in State Fund locations where other legally required employee notices are maintained. Compliance confirmation was transmitted to the State Auditor on June 23, 2015.

The covering communication also included a statement about State Fund's continuing commitment to ethical standards and operational transparency by maintaining our own Ethics and Privacy Hotline operated by an independent third party. Anonymous reporting is available.

Whistleblower protection under California law (*Cal. Labor Code §1102.5*) is extended to all persons, regardless of reporting venue.

<sup>1</sup>Governance reports are grounded in State Fund's Compliance Framework – resource USSG Ch. 8 Part B

## ***Biennial Insurer Supplier Diversity Survey (Cal. Insurance Code § 927)***

AB 53 (Solario, 2012) requires California admitted insurers with premiums in California of \$100 million or more to report biennially to the Department of Insurance about their efforts to obtain services from diverse suppliers. Insurer surveys are public information. State Fund submitted its *Supplier Diversity Survey* to the Department of Insurance on June 30, 2015 as required.

A California Diverse Supplier is any minority or women owned business enterprise with a headquarters address in California, or a disabled veteran business enterprise (*Cal. Insurance Code §§ 927.1(b); 927.2 (a)(2)(C)*).

In 2014, State Fund used 39 unique suppliers meeting the diverse supplier definition and spent \$6.65 million for services and products, a 21% increase in supplier volume, and 32% increase in spending since its report in 2013.

## ***Office of Foreign Assets Control (OFAC) Compliance***

The Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury administers and enforces economic and trade sanctions. Enforcement is based on U.S. foreign policy and national security goals against targeted foreign countries and regimes and persons identified as threats to the national security, foreign policy or economy of the United States.

OFAC acts under Presidential national emergency powers, as well as authority granted by specific legislation, to impose controls on transactions and freeze assets under U.S. jurisdiction (*Code of Federal Regulations 31 CFR 501 et seq.*). OFAC regulations preempt state insurance regulations.

State Fund must comply with OFAC regulations to assure it does not or is not doing business with specially designated nationals or other listed entities. Compliance failures may lead to civil penalties and/or criminal fines.

OFAC compliance at State Fund includes periodic review, research and analysis of State Fund databases and potential matches against current OFAC lists. True matches must be reported to the U.S. Treasury. Since inception of the process in 2008 at State Fund, no true matches have been found. State Fund is working to improve its OFAC related systems and processes.

## **Effective Training, Communication, and Awareness**

### ***2015 Compliance Training – Update***

2015 annual compliance training has been further consolidated, merging required ethics training for state officials with privacy and conflicts of interest. Added to the compliance training is Preventing Workplace Harassment for employees. All compliance related training must be completed by December 1.

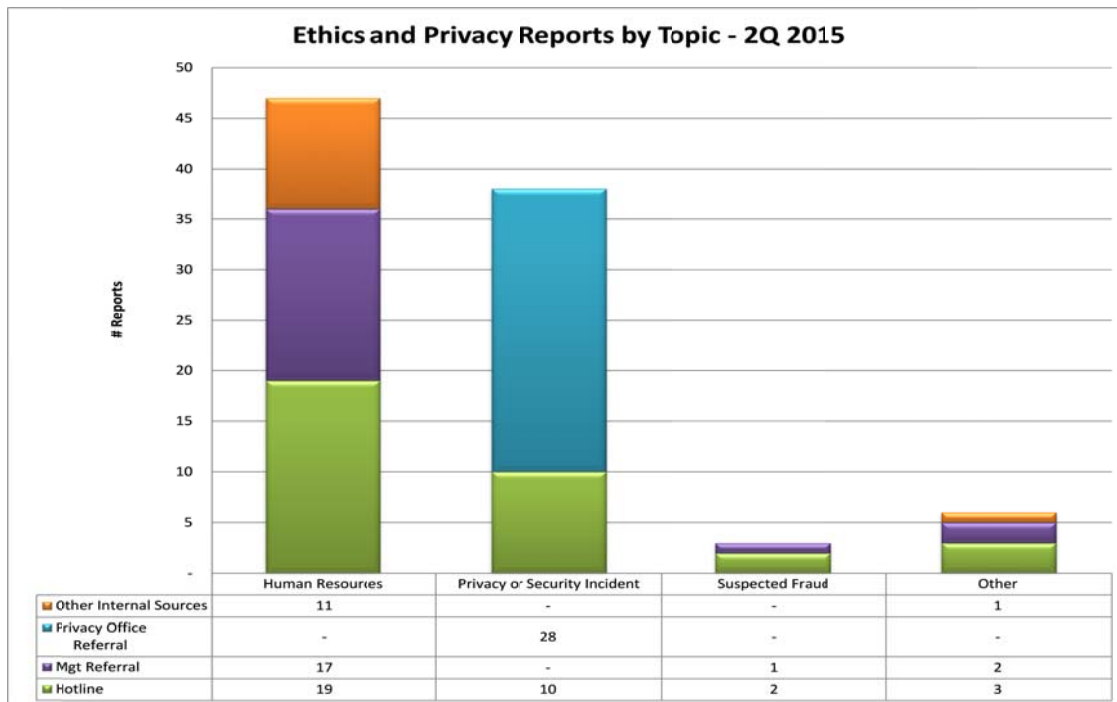
**Table 1: Compliance Training**

Training Module	Audience	Statute or Standard
Preventing Workplace Harassment	Managers and Supervisors	Cal. Gov't Code § 12950.1(b)
Preventing Workplace Harassment	Employees	Corporate Policy HR 4.3
Code of Conduct - Acknowledgement Conflicts of Interest; Ethics; Privacy	All State Fund Workforce Members	USSG Ch. 8, Part B § 8B2.1 FPPC 2CCR § 18370 NIST SP 800-53 <sup>b</sup>
Cyber Security	All State Fund Workforce Members	NIST SP 800-50 <sup>a</sup> PCI v3.1 <sup>c</sup>
Anti-Fraud	Integral anti-fraud personnel with duties including processing, investigating, or litigating payment or denial of claims, applications for adjudication or applications for insurance.	10CCR § 2698.39 (c)(2)

<sup>a</sup>NIST SP 800-50: National Institute of Standards and Technology. Building an IT Security Awareness and Training Program  
<sup>b</sup>NIST SP 800-53. National Institute of Standards and Technology. Security and Privacy Controls  
<sup>c</sup>PCI v 3.1. Payment Card Industry Data Security Standards

**Consistent monitoring, evaluation & reporting**  
**2Q 2015 Ethics & Privacy Reported Issues**

**Chart 1: Reports by Topic and Reporting Venue**



Thirty-one percent (29/94) of all ethics/privacy concerns were reported through State Fund's independent hotlines. Management and other internal referrals account for the other sixty-nine percent of reports received. Continuing the trend from 2014, the majority of the referrals to Human Resources were related to conflicts of interest/harassment/inappropriate behavior (45%). Referrals from the Privacy Office to Human Resources for investigation pertain to traffic from State Fund's data leakage program or incidents where individual responsibility was identified.