

Report to the Risk & Audit Committee

# CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Audit Plan:  
Year Ending June 30, 2021

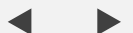


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The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Administration and Risk and Audit Committee) and, if appropriate, management of the California Public Employees' Retirement System and is not intended and should not be used by anyone other than these specified parties.



# Welcome

May 21, 2021

The Risk & Audit Committee  
California Public Employees' Retirement System

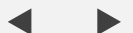
Professional standards require us to communicate with you regarding matters related to the financial statement audits that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. This document provides an overview of our plan for the audit of the financial statements of the California Public Employees' Retirement System (the "System") as of and for the year ending June 30, 2021, including a summary of the nature, scope, and timing of the planned audit work.

We are pleased to be of service to the System and look forward to discussing our audit plan, as well as other matters that may be of interest to you, during our meeting on June 15, 2021.

Respectfully,

*BDO USA, LLP*

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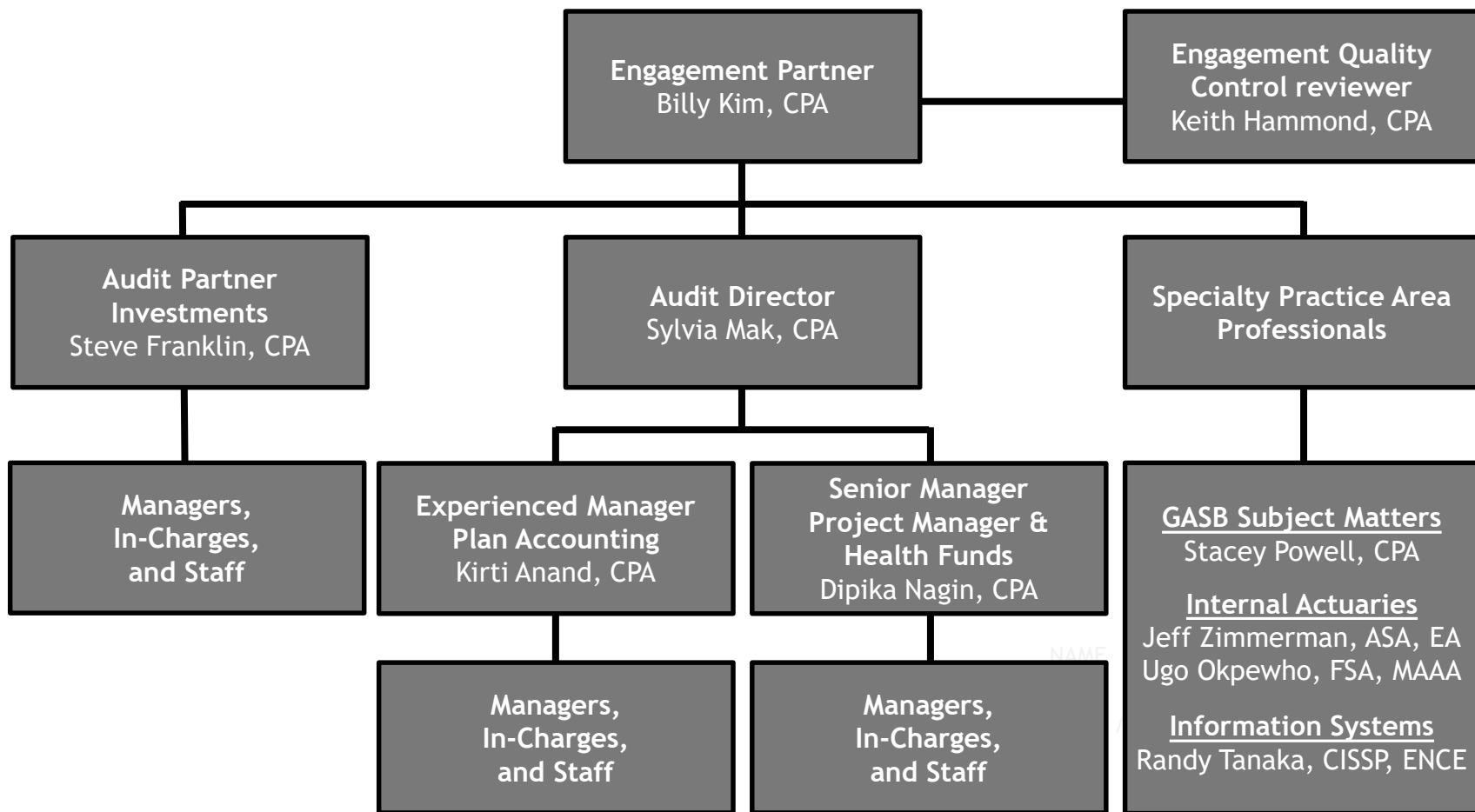




# Client Service Team

# Client Service Team

As a matter of policy, we attempt to provide continuity of service to our clients to the greatest extent possible. Where engagement team rotation is necessary, we will discuss this matter with you and determine the appropriate individual to be assigned to the engagement based on particular experience, expertise, and engagement needs. We have developed a client service team with professionals that can address the complexities of the System, ensuring the appropriate individuals are assigned to the engagement.





# Scope of Services, Responsibilities, and Independence

# Scope of Services

## SCOPE OF SERVICES

- ▶ Audit of the basic financial statements of the fiduciary and proprietary activities of the California Public Employees' Retirement System as of and for the year ending June 30, 2021.
- ▶ Audits of specified elements within the CalPERS GASB 68 pension and GASB 75 other post-employment benefit schedules.

## DELIVERABLES

- ▶ Independent Auditor's Report on the basic financial statements
- ▶ Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- ▶ Reports over the GASB 68 and 75 Schedules ("Schedules")
- ▶ Required Communications to the Risk & Audit Committee
- ▶ Management comments and recommendation letter

# Responsibilities

## MANAGEMENT'S RESPONSIBILITIES

- ▶ For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
- ▶ For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.
- ▶ To provide us with:
  - Access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - Written representations at the conclusion of the engagement.
  - Full cooperation of and unrestricted access to personnel at participating employers as we deem necessary.

## RESPONSIBILITIES OF THE RISK AND AUDIT COMMITTEE

- ▶ Oversight of the financial reporting process and internal controls over financial reporting.
- ▶ Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud.

## RESPONSIBILITIES OF MANAGEMENT AND THE RISK AND AUDIT COMMITTEE

- ▶ Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards.
- ▶ Ensuring that the System's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the System's financial statements.



# Responsibilities

## RESPONSIBILITIES OF BDO

- ▶ BDO USA, LLP, as your auditor, is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in conformity with accounting principles generally accepted in the United States of America.
- ▶ In addition, our audits will be conducted in accordance with standards for financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.
- ▶ The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities.
- ▶ Performing an audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance.
- ▶ The engagement letter, a copy of which has been provided to you, includes specific details regarding the auditor's and management's responsibilities.



# Independence

Our engagement letter to you dated March 23, 2021 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the System with respect to independence as agreed to by the System. Please refer to that letter for further information.





# Audit Timeline



# Overall Audit Timeline

The following represents our anticipated schedule with regard to our audits of the financial statements of the System and the Schedules:

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Periodic Meeting and Discussions with Management	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Walkthrough and Interim Testing		✓	✓							
Develop Audit Strategy, and Determine Nature and Scope of Testing		✓	✓	✓	✓					
Substantive Testing (confirmation procedures, etc.)			✓	✓	✓	✓	✓			
Review Draft Financial Statements / Comprehensive Annual Financial Report							✓	✓		
Final Communications with Risk & Audit Committee								✓		
GASB 68 & 75 Schedules - Incremental Testing and Report					✓	✓	✓	✓	✓	
Debrief with Management										✓



# Audit Strategy

# Audit Strategy

Overall, our audit strategy is to assess the risks of material misstatement of the financial statements and Schedules, whether due to fraud or error, and design further audit procedures responsive to assessed risks. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and Schedules.

In connection with our audits, we will obtain a sufficient understanding of the System's internal control to plan the audits of the financial statements and Schedules. However, such understanding is required for the purposes of determining our audit procedures and not to provide any assurance concerning such internal control.

In addition, *Government Auditing Standards* also require that we consider compliance with certain provisions of laws, regulations, contracts and grant agreements noncompliance with which could have a direct and material effect on the financial statements and Schedules. However, providing an opinion on compliance with those provisions is not an objective of our audits.

We will continue to update the resulting assessment throughout the audits.



# Audit Strategy Considerations

Overall, our audit strategy is to focus on elevated risk areas for the potential of material misstatement (whether due to error or fraud) and other areas of concern for management and the Risk and Audit Committee.

Our audit strategy includes consideration of:

- ▶ Prior year audit results together with current year preliminary analytical review, including discussions with management and those charged with governance regarding the System's operations.
- ▶ Inherent risk within the System's, (i.e., the susceptibility of the financial statements to material error or fraud) before recognizing the effectiveness of the control systems.
- ▶ A continual assessment of materiality thresholds based upon qualitative and quantitative factors affecting the System.
- ▶ Recent developments within the industry, regulatory environment and general economic conditions.
- ▶ Recently issued and effective accounting and financial reporting guidance.
- ▶ The System's significant accounting policies and procedures, including those requiring significant management judgments and estimates and those related to significant unusual transactions.
- ▶ The control environment and the possibility that the control system and procedures may fail to prevent or detect a material error or fraud.
- ▶ Information about systems and the computer environment in which the related systems operate, including those operations at the System's key service providers such as third-party administrators and custodial banks as reported in their service auditor reports.
- ▶ Results of the work of the System's internal audit function and discussion with those personnel.
- ▶ Use of specialists to assist in performing certain planned audit procedures or evaluating audit results related to significant risks that may require specialized skills or knowledge.

# Updates to the Audit Strategy

Audit planning is a collaborative and continuous process and our audit strategy, as reflected, will be reviewed and updated as our audit progresses.

We will communicate to the Risk and Audit Committee, in a timely manner, any significant changes to the planned audit strategy or the significant risks initially identified that may occur during the audit to the results of audit procedures or in response to external factors, such as changes in the economic environment.

Changes to the audit risks identified, their classification, or the planned audit approach from prior year have been highlighted within the following Audit Areas of Focus.





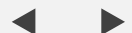


# Audit Areas of Focus

# Audit Areas of Focus

Based upon our initial assessment, our audits will entail a combination of review of controls, and substantive testing. The primary areas of focus in our overall audit strategy and select example procedures, include the following:

Areas of Focus	Discussion
Fraud Risk, including Management Override of Internal Control Over Financial Reporting	Review of internal control procedures, inquiry of System personnel including those outside accounting, sending external confirmations, review of tip-line activity, testing of journal entries by utilizing data analytics to identify risk-based journal entries for testing, and perform risk-based testing of certain accounts.
Investments and Related Income and Disclosures	Confirmation of holdings with custodians and investment managers, obtaining audited statements and retrospective review compared to interim financial reports, performing rollforward testing procedures on lag reporting period, testing valuation models, testing a sample investment proceeds, and assessing adequacy of disclosures consistent with GASB 40 and 72.
Long Term Care Liability for Future Policy Benefits	Review of actuarial valuation report including assumptions, testing rollforward activity for the year, and testing samples of underlying census data for completeness and accuracy that support the valuations.
Health Care Estimated Insurance Claims Due	Testing a sample of claims for accuracy, retrospective review of the prior year Incurred but not reported (IBNR) reserve, recalculation of the liability amounts.
Pension and Other Postemployment Benefit Liabilities and Related Disclosures	Testing samples of underlying census data for completeness and accuracy, using in-house actuarial professionals to evaluate reasonableness of assumptions based on published data and most recent experience study, performing certain recalculations including modeling long term rate of return and sufficiency of net position calculations.
Plan Contributions	Testing a sample of recorded contributions for a given period based on recalculations of required contribution rates and using data analytics to identify contribution anomalies for investigation.
Plan Benefit Payments	Testing a sample of benefit payments for consistency with plan provisions and using data analytics to identify benefit payment trend anomalies for investigation.
Premium Revenues	Testing a sample of premium revenues for existence, completeness and accuracy and performing procedures to test for revenue cut off.
Information Systems	Identifying all systems relevant to the financial reporting process, reviewing the design and implementation of logical access and change management controls, and reviewing user control considerations for interacting with key service providers' information systems.





# Industry Resources

# Industry Risk and Resources

- ▶ BDO's industry focus is part of who we are and how we serve our clients and has been for over a century. We demonstrate our experience through knowledgeable professionals, relevant client work and participation in the industries we serve.
- ▶ Our industry practices bring perspective on trends, opportunities, issues and regulations that frame our services and approach to address your needs and your industry.

Home > Industries > Public Sector > Overview

## Public Sector

BDO leverages an independent viewpoint to help clients navigate complex, government-wide challenges.

### Challenging times call for a new perspective.

The public sector is facing many challenges. In addition to political gridlock, the federal deficit has caused many agencies' budgets to shrink over the last several years, meaning that government leaders are under pressure to accomplish more with reduced funding.

BDO's Public Sector Practice serves a wide variety of clients across many levels of government. In addition to our Federal Government clients, we also serve Regional, State, and Local Governments, drawing on deep experience to provide strategic, innovative solutions. Offering a unique depth of capabilities and resources, BDO helps government leaders develop tailored strategies and implement practical solutions that make the most of their limited resources.

#### KEY CONTACTS

**MARK ELLENBOGEN** ▶  
President/CEO of BDO Public Sector

# PUBLIC SECTOR ENTITIES RELATED TO COVID-19

# Accounting, Audit and Other Compliance Considerations

The global pandemic is having unprecedented impacts on federal, state, local, tribal and territory governments. Our [COVID-19 resource center](#) helps organizations stay abreast of the latest developments and mitigate risk during this time of uncertainty. For government organizations, the stakes are high as agencies and elected officials work overtime to flatten the curve, save lives and ensure the safety of the American people.

While circumstances are changing daily, our FAQs for the Public Sector answer the most frequently asked questions by government organizations, along with resources to help them respond and plan around each on.



# The BDO Center for Corporate Governance and Financial Reporting



A dynamic and searchable on-line resource for board of directors and financial executives

“ A resource center with the continual education needs of those charged with governance and financial reporting in mind! ”

## AN INCREDIBLE RESOURCE AT YOUR FINGERTIPS

The BDO Center for Corporate Governance and Financial Reporting was born from the need to have a comprehensive, online, and easy-to-use resource for topics relevant to boards of directors and financial executives. We encourage you to visit the Center often for up-to-date information and insights you can rely on.

What you will find includes:

- ▶ Thought leadership, practice aids, tools, and newsletters
- ▶ Technical updates and insights on emerging business issues
- ▶ Three-pronged evolving curriculum consisting of upcoming webinars and archived self-study content
- ▶ Opportunities to engage with BDO thought leaders
- ▶ External governance community resources

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[www.bdo.com/resource-centers/governance](http://www.bdo.com/resource-centers/governance)



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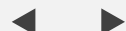
Email Address (username) \*      Company/Organization \*

First Name \*      Last Name \*

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