

VIDEOCONFERENCE MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
RISK AND AUDIT COMMITTEE
OPEN SESSION

ZOOM PLATFORM

TUESDAY, JUNE 15, 2021

3:31 P.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

APPEARANCES

COMMITTEE MEMBERS:

Lisa Middleton, Chairperson

David Miller, Vice Chairperson

Margaret Brown

Fiona Ma, represented by Frank Ruffino

Betty Yee, represented by Lynn Paquin

BOARD MEMBERS:

Henry Jones, President

Rob Feckner

Stacie Olivares

Eraina Ortega, represented by Michelle Mitchell

Ramon Rubalcava

Theresa Taylor, Vice President

STAFF:

Marcie Frost, Chief Executive Officer

Matthew Jacobs, General Counsel

Marlene Timberlake D'Adamo, Chief Compliance Officer

Beliz Chappuie, Chief Auditor

Pam Hopper, Committee Secretary

APPEARANCES CONTINUED

ALSO PRESENT:

Steve Franklin, BDO

Billy Kim, BDO

Sylvia Mak, BDO

Dipika Nagin, BDO

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PROCEEDINGS

1
2 CHAIRPERSON MIDDLETON: I call the June 15 Risk
3 and Audit Committee to order. And let us begin with the
4 roll call, please.

5 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

6 CHAIRPERSON MIDDLETON: Present.

7 COMMITTEE SECRETARY HOPPER: Margaret Brown?

8 Not yet appeared.

9 Frank Ruffino for Fiona Ma?

10 ACTING COMMITTEE MEMBER RUFFINO: Present.

11 COMMITTEE SECRETARY HOPPER: David Miller?

12 VICE CHAIRPERSON MILLER: Here.

13 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

14 I see her name, but I do not hear her.

15 Lynn Paquin for Betty Yee?

16 ACTING COMMITTEE MEMBER PAQUIN: Here.

17 COMMITTEE SECRETARY HOPPER: Last call, Shawnda
18 Westly?

19 Madam Chair, I have everyone in attendance with
20 the exclusion of Margaret Brown not yet and Shawnda Westly
21 appears to be in the meeting, but I do not see her video.

22 CHAIRPERSON MIDDLETON: Do we have a quorum?

23 Matt.

24 GENERAL COUNSEL JACOBS: Yes, you do.

25 CHAIRPERSON MIDDLETON: All right. Thank you.

1 Then we'll go ahead and proceed.

2 Second item on the agenda is approval of the June
3 15 Risk and Audit Committee timed agenda. Is there a
4 motion to approve?

5 VICE CHAIRPERSON MILLER: Move approval.

6 CHAIRPERSON MIDDLETON: Mr. Miller.

7 Second?

8 ACTING COMMITTEE MEMBER PAQUIN: Second.

9 CHAIRPERSON MIDDLETON: Lynn Paquin For Betty
10 Yee.

11 Roll call, please.

12 COMMITTEE SECRETARY HOPPER: Again Margaret
13 Brown?

14 COMMITTEE MEMBER BROWN: Aye.

15 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
16 Fiona Ma?

17 ACTING COMMITTEE MEMBER RUFFINO: Aye.

18 COMMITTEE SECRETARY HOPPER: David Miller?

19 VICE CHAIRPERSON MILLER: Aye.

20 COMMITTEE SECRETARY HOPPER: Shawnda Westly?
21 Lynn Paquin for Betty Yee?

22 ACTING COMMITTEE MEMBER PAQUIN: Aye.

23 COMMITTEE SECRETARY HOPPER: Madam Chair, I have
24 a motion being made by David Miller, seconded by Lynn
25 Paquin for Betty Yee. I have four ayes. Shawnda Westly

1 is not in appearance right now. So I believe that is the
2 votes we have currently.

3 CHAIRPERSON MIDDLETON: Thank you.

4 Ms. Timberlake D'Adamo, would you like to give
5 the executive report?

6 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

7 Yes. Thank you. Good afternoon, Madam Chair,
8 Mr. Vice Chair, Committee, and Board members. Marlene
9 Timberlake D'Adamo CalPERS team member.

10 We have to audit action items for your
11 consideration today. The first is the 2021-2022 Office of
12 Audit Services Plan. The Office of Audit Services will
13 present its proposed annual audit covering audits and
14 activities to be performed in fiscal year 21-22.

15 The second audit action item is the independent
16 auditor's annual plan. The independent auditor will
17 present its annual plan to provide information on its
18 approach, scope, objectives and deliverables. At the
19 conclusion of the audit, the independent auditor will
20 report the results of the audit and express opinions on
21 the respective financial statements of the fiduciary and
22 proprietary activities.

23 The 2021 Annual Compliance Plan will be presented
24 as an information item. The annual compliance report --
25 excuse me, I said plan, but the annual compliance report

1 reports on information items, summarizes CalPERS
2 enterprisewide compliance activities for fiscal year
3 20-21.

4 The next Risk and Audit Committee meeting will
5 take place in September 2021 and will include the
6 enterprise risk management framework review.

7 Thank you, Madam Chair. This concludes my report
8 and I would be happy to take any questions.

9 CHAIRPERSON MIDDLETON: Okay. If I could add a
10 comment to Ms. Timberlake D'Adamo. Recently, Ms. Brown
11 requested a discussion of the audit review of death
12 benefits receivable. Since that topic had not been
13 agendized for discussion at this hearing, and November is
14 a full five months out, after conferring with staff, most
15 of the agenda planned for the November meeting will
16 actually be held in September. We will have a Risk and
17 Audit Committee meeting in September. There will also be
18 a November meeting of the Risk and Audit Committee meeting
19 as that meeting is necessary and very important to review
20 the independent auditor's report and management letter.

21 Are there any questions regarding that?

22 Margaret -- Ms. Brown.

23 COMMITTEE MEMBER BROWN: Yeah. I left something
24 in the chat. So we will be taking up the -- agendizing
25 the audit for September or for November?

1 CHAIRPERSON MIDDLETON: September.

2 COMMITTEE MEMBER BROWN: I -- thank you. I
3 really appreciate you doing that. Thank you.

4 CHAIRPERSON MIDDLETON: You're welcome. And the
5 big thanks goes to all of our staff who were very
6 accommodating in working through.

7 With that, we will move on to action consent
8 items, approval of the April 19, 2021 Risk and Audit
9 Committee meeting minutes. Is there a motion to --

10 VICE CHAIRPERSON MILLER: Move approve.

11 CHAIRPERSON MIDDLETON: Mr. Miller, approve.
12 Second?

13 COMMITTEE MEMBER BROWN: Second.

14 ACTING COMMITTEE MEMBER RUFFINO: Second.

15 COMMITTEE MEMBER BROWN: Second.

16 CHAIRPERSON MIDDLETON: I think I heard Ms. Brown
17 first. So roll call, please.

18 COMMITTEE SECRETARY HOPPER: Margaret Brown?

19 COMMITTEE MEMBER BROWN: Aye.

20 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
21 Fiona Ma?

22 ACTING COMMITTEE MEMBER RUFFINO: Aye.

23 COMMITTEE SECRETARY HOPPER: David Miller?

24 VICE CHAIRPERSON MILLER: Aye.

25 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

1 COMMITTEE MEMBER WESTLY: Aye.

2 COMMITTEE SECRETARY HOPPER: Lynn Paquin for
3 Betty Yee?

4 ACTING COMMITTEE MEMBER PAQUIN: Aye.

5 COMMITTEE SECRETARY HOPPER: Madam Chair, I have
6 a motion being made by David Miller, seconded by Margaret
7 Brown for Agenda Item 4a, approval of the April 19, 2021
8 Risk and Audit meeting minutes.

9 CHAIRPERSON MIDDLETON: Next item on our agenda
10 is Item 5, information consent items.

11 Is there any discussion or questions on the
12 information dissent -- consent items?

13 Seeing none.

14 Can I get a motion to approve Item 5?

15 VICE CHAIRPERSON MILLER: Move approval.

16 ACTING COMMITTEE MEMBER RUFFINO: Second.

17 CHAIRPERSON MIDDLETON: Mr. Miller moving, Mr.
18 Ruffino seconding.

19 Roll call, please.

20 COMMITTEE SECRETARY HOPPER: What item was this
21 for?

22 CHAIRPERSON MIDDLETON: This is number five.

23 COMMITTEE SECRETARY HOPPER: Okay. That's --
24 those are information consent items.

25 CHAIRPERSON MIDDLETON: Not required?

1 COMMITTEE SECRETARY HOPPER: Not required.

2 CHAIRPERSON MIDDLETON: Thank you.

3 Then we will move on to Item 6a, which is 2021
4 Office of Audit Services plan. Ms. Chappuie.

5 CHAIRPERSON MIDDLETON: There she is.

6 CHIEF AUDITOR CHAPPUIE: All right. I was just
7 allowed to join. I could watch everyone, but I couldn't
8 see myself there.

9 Good afternoon, Madam Chair, and members of the
10 Committee. Beliz Chappuie, Office of Audit Services.

11 Agenda Item 6a is an action item. Staff is
12 requesting the Risk and Audit Committee to approve the
13 Office of Audit Services proposed audit plan for the
14 fiscal year 2021-22.

15 As required by the internal auditing standards,
16 the Office of Audit Services prepared the risk-based audit
17 plan to determine the priorities of the internal audit
18 activity for the next fiscal year. In conducting the risk
19 assessment, the Office of Audit Services, as the third
20 line of defense, coordinated its efforts with the second
21 line of defense, Enterprise Compliance Division, and
22 Enterprise Risk Management Division.

23 We interviewed CalPERS executive and senior
24 management teams and sought input from the Board members
25 through surveys. Staff also incorporated information from

1 prior audits. Office of Audit Services has two audit
2 programs, internal audits and employer compliance reviews.
3 In identifying the internal audit assignments and
4 activities, staff evaluated multiple risk factors, such as
5 impact on the organizations strategic goals and financial
6 statements, changes in the operations and regulations, and
7 internal controls. We also allocated resources to
8 consulting engagements and special projects.

9 For the employer compliance reviews, the Office
10 of Audit Services plans to complete four review cycles
11 covering one compliance area per cycle and 60 to 80
12 agencies each cycle.

13 As required by the internal auditing standards,
14 we'll remain responsive to the changes in the
15 organization's operations and programs, and we will review
16 and update the audit plan as necessary. Any modifications
17 to the audit plan will be communicated to the community
18 through the quarterly status reports.

19 This concludes my presentation and I'm happy to
20 answer any questions.

21 CHAIRPERSON MIDDLETON: Are there any questions
22 for Ms. Chappuie?

23 I don't see any, but I would like to congratulate
24 you on what looks to be a very well-rounded plan for the
25 upcoming year. And you've got, I think, a number of very

1 important audits ahead of you.

2 I do see Ms. Brown has a question.

3 COMMITTEE MEMBER BROWN: Yeah. It's a question,
4 and a statement, and, you know, I was going to make a
5 motion or ask for an amendment to the motion to -- that we
6 put the audits on the open session agenda. But since it
7 looks like, you know, we're doing that with the review of
8 the death benefit overpayments, that it looks like going
9 through what I'll consider to be a normal process, which
10 is asking the Chair and then them getting on the agenda, I
11 don't think it's necessary to have that as part of the
12 audit plan, that audits are automatically put on the
13 consent agenda.

14 Last year, we did that, but we said we would put
15 it on the closed session agenda, and legal counsel has
16 struck that down as not -- didn't comply with the
17 exception. And so I was going to ask that it be part of
18 the open session. But since now, Ms. Middleton, it looks
19 like we've struck gold here. We're going to get the audit
20 on the open session agenda when they're critical, I'm not
21 going to make that suggestion. But I just want you to
22 know I was planning on doing that, but thank you for that.

23 CHAIRPERSON MIDDLETON: All right. Thank you.

24 Ms. Chappuie, I want to ask just a couple of very
25 broad questions that -- and these are different --

1 differently phrased than what you will receive in closed
2 session, because I want to get this out into the public.

3 Who's responsibility is it to ultimately develop
4 the audit plan that you present to the Board?

5 CHIEF AUDITOR CHAPPUIE: It's mine.

6 CHAIRPERSON MIDDLETON: And --

7 CHIEF AUDITOR CHAPPUIE: I work with my managers
8 in developing that. And as we stated, we work with the
9 executive team, the Board members, division chiefs, in
10 identifying the risk areas for the organization, and we --
11 there's a universe of assignments that we could perform,
12 of course, with the resources and time we have available.
13 We just identified the ones that bubble up to the top that
14 we would could form. And we put it on the plan that we
15 present to the Risk and Audit Committee. And it's my and
16 my team's responsibility to develop that plan.

17 CHAIRPERSON MIDDLETON: Okay. Since many people
18 are not familiar with the process, could you just very
19 briefly go over what you do in terms of reaching out to
20 individuals outside of your team to get their ideas as to
21 what should go into the audit plan, and then how you work
22 with your team to come to the ultimate conclusions.

23 CHIEF AUDITOR CHAPPUIE: Absolutely. Absolutely.
24 As we're expected to perform a risk-based audit plan
25 pursuant to the standards, we have a universe that we

1 could call, right? All this happens that OFAS could
2 possibly perform for the organization. But for us to
3 narrow it down, we conduct these meetings in person with
4 the executive team. One-on-one, we meet with every single
5 one of them individually, myself, and the representatives
6 of the second line of defense, Enterprise Compliance
7 Division and Enterprise Risk Management. So we do this as
8 an integrated assurance team.

9 And we meet with them. We seek their input. We
10 also send them a survey in advance for them to, you know,
11 think through the questions, and some of them choose to
12 respond to us in writing. Some prefer to respond to our
13 questions in person when we meet with them. And we also
14 do the same thing with the division chiefs. And to the
15 Board members, we send a survey. And thank you to those
16 who had the opportunity to respond to us. We take those
17 responses very seriously. We like to incorporate
18 everyone's input into the risk assessment.

19 But ultimately, it's really the auditor's
20 responsibility to determine those assignments because we
21 have a well-established knowledge of the potential audits,
22 potential risks for the organization, based on the
23 assignments we've performed in the past. But we would
24 also like to incorporate these developing risks. You
25 know, everything changes on a regular basis, on a daily

1 basis. So we do have to refresh that risk assessment, as
2 we go, as we develop the audit plan every year.

3 CHAIRPERSON MIDDLETON: All right. Thank you.
4 So I appreciate you doing that and it is critical to your
5 independence that you continue to reach out, but
6 ultimately the final decision is yours.

7 With that, this is an action item. Can I get a
8 motion to approve?

9 VICE CHAIRPERSON MILLER: Move that we approve
10 the motion to approve the Office of Audit Services plan
11 presented by Ms. Chappuie.

12 CHAIRPERSON MIDDLETON: Okay. Is there a second?

13 COMMITTEE MEMBER BROWN: Second.

14 CHAIRPERSON MIDDLETON: Okay. Second, Ms. Brown.
15 Roll call, please.

16 COMMITTEE SECRETARY HOPPER: Margaret Brown?

17 COMMITTEE MEMBER BROWN: Aye.

18 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
19 Fiona Ma?

20 ACTING COMMITTEE MEMBER RUFFINO: Aye.

21 COMMITTEE SECRETARY HOPPER: David Miller?

22 VICE CHAIRPERSON MILLER: Aye.

23 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

24 COMMITTEE MEMBER WESTLY: Aye.

25 COMMITTEE SECRETARY HOPPER: Lynn Paquin for

1 Betty Yee?

2 ACTING COMMITTEE MEMBER PAQUIN: Aye.

3 COMMITTEE SECRETARY HOPPER: Madam Chair, I have
4 all ayes, motion being made by David Miller, seconded by
5 Margaret Brown for Agenda Item 6a, 2021-22 Office of Audit
6 Services Plan.

7 CHAIRPERSON MIDDLETON: Thank you.

8 We'll move on now to Item 6b, the independent
9 auditor's annual plan. Ms. Chappuie.

10 CHIEF AUDITOR CHAPPUIE: Good afternoon, Madam
11 Chair and members of the Committee. Beliz Chappuie,
12 Office of Audit Services. Agenda Item 6b is an action
13 item. Staff is requesting the Risk and Audit Committee to
14 approve the Board's independent auditor, BDO's, audit plan
15 for the audit of CalPERS' financial statements for the
16 fiscal year ending June 30, 2021. The presentation is to
17 provide the Risk and Audit Committee the opportunity to
18 hear from the independent auditor regarding their
19 approach, objectives, scope, and deliverables for the
20 financial statement audit and enable the Committee to ask
21 questions.

22 BDO staff are presenting with me today and I
23 would like to turn it over to them.

24 CHAIRPERSON MIDDLETON: All right.

25 CHIEF AUDITOR CHAPPUIE: Billy.

1 CHAIRPERSON MIDDLETON: I see Mr. Kim.

2 MR. KIM: Yes. Good afternoon. Can you hear me?

3 CHAIRPERSON MIDDLETON: We can.

4 MR. KIM: Okay. Can we make sure my colleagues
5 are also elevated, if possible, Steve Franklin, Sylvia
6 Mak, and Dipika Nagin as well.

7 Thank you.

8 (Thereupon a slide presentation.)

9 MR. KIM: All right. Good afternoon, Madam
10 Chair, Vice Chair, and members of the Committee. It's
11 good to see you again. And for the record, my name is
12 Billy Kim, over BDO engagement leader for the external
13 audit of CalPERS.

14 I'm joined here with my colleague Steven
15 Franklin, who is our assurance Bay Area financial services
16 practice leader and is responsible for assisting me in
17 leading the audit of the investments area. I'm also
18 joined by Sylvia Mak, who is an assurance director and
19 Dipika Nagin who is assurance senior manager, and both of
20 whom assist me in leading the overall engagement team,
21 planning, audit approach strategy, and execution.

22 Before our presentation, we'll walk you through
23 our PowerPoint, which we have prepared and we'll highlight
24 specific items for your attention.

25 Can we move to slide five, please?

1 --o0o--

2 MR. KIM: So first off, I want to talk about our
3 client service team. Now, this is an organizational chart
4 of our team. And all the name shown on this slide
5 represent key leaders as well as key specialists on the
6 BDO audit team. And there are also many other people that
7 report to each of these leaders as well.

8 Our overall engagement team has a mix of
9 recurring team members and also new team members. And
10 this really helps us to build off of our knowledge that we
11 gained from the prior year, but also at the same time to
12 help us to continually bring a fresh perspective to the
13 audit work.

14 I also wanted to touch upon our scope of
15 services, responsibilities, and independence. And so can
16 we move to slide seven, please.

17 --o0o--

18 MR. KIM: Thank you.

19 The scope of our services include performing a
20 audit over the 2021 fiscal year-ending financial
21 statements of CalPERS, as well as performing the audits of
22 the GASB 68 and GASB 75 employer allocation schedules.
23 And as part of the audit of the financial statements of
24 CalPERS, we will report to you the results of the audit
25 work prior to the issuance of the statements in November.

1 And also at that -- at that time, we'll share any internal
2 control recommendations that we identify, and also results
3 of any remediation of prior year findings.

4 Next slide, please.

5 --o0o--

6 MR. KIM: This slide from a financial reporting
7 and audit perspective lays out the responsibilities of
8 management, but also the Risk and Audit Committee.

9 MR. KIM: As a reminder, management is the one
10 that is responsible for preparation and a fair
11 presentation of the financial statements and the schedules
12 in accordance with generally accepted accounting
13 standards.

14 Management is also responsible to provide us as
15 your auditors all access to records for us to complete our
16 audit work.

17 The Risk and Audit Committee, as a reminder, is
18 responsible with the oversight and accountability of
19 management over the financial reporting process and also
20 over internal controls over financial reporting.

21 Next slide, please.

22 --o0o--

23 MR. KIM: Now, as your auditors, BDO is
24 responsible to perform an audit in expressing an opinion
25 over such financial statements and schedules in conformity

1 with generally accepted accounting standards.

2 Next slide, please.

3 --o0o--

4 MR. KIM: Now, this slide is an -- is on
5 independence and confirms that BDO is independent of
6 CalPERS, which is a requirement under our professional
7 standards. Now, I'll pass it off to Dipika, who will go
8 through the next few slides.

9 MS. NAGIN: Thank you, Billy.

10 May we move to the next slide.

11 --o0o--

12 MS. NAGIN: One, more please.

13 --o0o--

14 MS. NAGIN: Thank you.

15 This slide shows the overall timeline for the
16 audit. I did want to highlight that we are in touch with
17 management throughout the year. This is important to us
18 as we continue to ensure we are identifying any changes or
19 information we need for the audit on a timely basis, and
20 also providing real-time audit progress updates to
21 management.

22 We are in the stages of wrapping up our interim
23 testing this month. Management has been very responsive
24 to our requests thus far. We have not had any issues
25 accessing or obtaining access to any information we have

1 asked for, even while we are currently continuing working
2 remotely due to COVID-19.

3 As it relates to work being performed and
4 completed thus far, we have not found any specific issues
5 to report to you.

6 Next slide, please.

7 --o0o--

8 MS. NAGIN: One more slide.

9 --o0o--

10 MS. NAGIN: Thank you.

11 This slide discusses our audit strategy and risk.
12 I'm going to start with describing some of our audit
13 strategy considerations. As part of our planning process,
14 we have been working to identify areas of focus, including
15 areas of potential misstatement, whether it be due to
16 fraud or error, as well as other areas of concern. We
17 identified those areas by considering prior year results
18 of audit, as well as performing preliminary analytical
19 reviews. We also consider any changes or developments
20 within the industry, as well as changes in the general
21 economic conditions. All of these inform our decisions
22 over materiality, which we continuously assess throughout
23 the audit.

24 We have also thought through areas of judgment
25 and estimate and whether any areas contain higher risk.

1 We've considered the entity's internal controls and have
2 performed walk-throughs to gain an understanding of the
3 process and controls that are in place. As a result of
4 this process, we work to identify if there's any
5 particular areas of risk that would be of concern where
6 we'd want to focus our audit procedures on.

7 Next slide, please.

8 --o0o--

9 MS. NAGIN: The next slide highlights that even
10 though our audit -- our planning process was performed as
11 a way to identify areas of risk, this is a continual
12 process. So as we go through the audit, if we identify
13 any other areas of concern, we would focus on that and
14 work to develop audit procedures to address those areas.

15 We will communicate with the Risk and Audit
16 Committee if we see any changes to our planned audit
17 strategy, as we progress in our audit.

18 With that, I will pass it on to Steve Franklin to
19 discuss our investment plan.

20 MR. FRANKLIN: And can you please go to slide 18.

21 --o0o--

22 MR. FRANKLIN: Thank you.

23 Good afternoon, everyone. So as you can see
24 here, I'm going to focus on the investment piece, which is
25 the item number two on this slide. And what we're going

1 to -- one of the key procedures that we are going to take
2 is confirmation of the holdings. So we will be sending
3 confirmation of all the securities that CalPERS holds,
4 both the, you know, level -- you know, the public
5 securities and also the private equity and real estate
6 securities.

7 We will -- we're sending confirmations to the
8 custodians to validate those. We will be also performing
9 detailed valuation procedures over the pricing and
10 valuation of those public securities, as well as the
11 private equity and real estate assets.

12 The private equity and real estate investment we
13 will be obtaining audited financial statements of those
14 entities as of the latest fiscal year, which would be
15 December 31st, 2020. We will then be obtaining capital
16 statements that CalPERS receives from each of those
17 underlying investment firms on a regular basis -- on a
18 quarterly basis, and validate that information and compare
19 that information to the audited financial statements.

20 We will also be doing testing realized gain
21 losses that the -- you know, that the funds have been
22 realized during the fiscal year. In addition, we'll be
23 focusing again on the lag analysis, which is, you know,
24 the difference between the audited financial statements of
25 the underlying funds for private equity and real estate

1 versus CalPERS year-end, which is as of 6/30.

2 We will also then be, you know, doing analysis
3 and work closely with management around the lag of, you
4 know, initially preparing the financial statements as of
5 using the 3/13 information and comparing that to 6/30. So
6 we have a really nice process and work closely with
7 management on that and have come to -- you know, to really
8 be efficient and be able to get that nailed down very
9 quickly and precisely.

10 We will do some additional other settling
11 procedures around -- you know, as part of the investments
12 around the disclosures, and, you know, the annual report.
13 But again, we look forward to another really good year. I
14 would say that most of our investment testing is focused
15 on year-end, because we want to, you know, test the
16 existence and test the value of the investments as of
17 6/30. So it doesn't really help us too much to do them
18 as -- interim as of now, whereas some of the investment
19 and some of the, you know, the plan accounting has been
20 doing work now. We really focus our work at year-end when
21 it's more -- most efficient for us.

22 With that, I'm going to hand over -- hand it over
23 to Sylvia who will continue with the audit areas of focus.

24 MS. MAK: Thanks, Steve. So as Dipika had
25 mentioned earlier, part of our main focus for the past

1 month or so and into June has been planning and risk
2 assessment. As part of that process, we have been
3 performing our walk-throughs to again an understanding of
4 the controls.

5 We've also been inquiring of personnel at
6 CalPERS, not just those in the accounting Department, but
7 also those outside the accounting department to get a
8 better understanding of risks. We will also be sending
9 out external third-party confirmations. We'll also be
10 reviewing the tip line activity. And then as part of our
11 risk assessment, also selecting general entries by using
12 data analytics to identify whether there's any particular
13 entries we want to focus on particularly.

14 In addition, we're also going to focus on
15 long-term care liability. As part of that review, we will
16 review the actuarial valuation reports, including any key
17 assumptions used. We'll also test the roll-forward
18 activity for the year. We'll also select samples of
19 underlying census data for completeness and accuracy
20 testing that supports the valuation reports.

21 Another area of focus is the health care
22 estimated insurance claims due. As part of that, we test
23 the claims for accuracy. We also perform a retrospective
24 review of the prior year incurred-but-not-reported
25 information. We also recalculate the liability amounts as

1 well.

2 The next area of focus is the pension and other
3 post-retirement benefit liabilities and related
4 disclosures. We'll also, in relation to that, test the
5 census data for completeness and accuracy. We also use
6 our in-house actuarial professionals to help evaluate the
7 reasonableness of assumptions used, base on published data
8 and most recent experience studies. We'll also do
9 recalculations, including modeling long-term rates of
10 return to evaluate sufficiency as well of the net position
11 calculations.

12 As it relates to plan contributions, we do select
13 a sample of recorded contributions during the year and
14 perform recalculations of the required contribution rates.
15 And we'll use data analytics to help identify any
16 contribution anomalies for further investigation.

17 Benefit payments are another area of focus, where
18 we also perform a sample selection to ensure that
19 distributions are being made in accordance with plan
20 provisions and we'll also use data analytics as well to
21 testify for any anomalies.

22 Premium revenues is another area of focus, where
23 we're also test for completeness, existence, and accuracy,
24 and we'll also perform particular cut-off procedures as
25 well.

1 And then finally, we also focus on the
2 information systems. We've been working to identify all
3 the systems that are relevant to the financial reporting
4 process. And as part of that, we review for the design
5 and implementation with particular focus on logical access
6 and change management controls, as well as reviewing user
7 control considerations as it relates to any of the key
8 service provider information systems.

9 I'll turn to slide 20.

10 --o0o--

11 MS. MAK: The next couple slides just summarizes
12 some of the available publicly information resources for
13 our clients in the governmental public sector industry.
14 This site gives various tools and resources.

15 And if we go to the next slide --

16 --o0o--

17 MS. MAK: -- we do have an area on the site
18 that's particularly focused on COVID-19 resources and will
19 help entities stay up-to-date in terms of the latest
20 developments and areas of consideration to help mitigate
21 risk in the current environment.

22 And if we turn to the next slide --

23 --o0o--

24 MS. MAK: -- the slide just summarizes our
25 various online resources, including thought leadership,

1 practice aids, tools, and emerging trends that are
2 available, which include webinars, if you're interested.

3 So feel free to take a closer look at this and go
4 on the website and get some additional resources. If you
5 have any questions, let us know. And that brings us to
6 the end of our presentation and we'll open it up for
7 questions.

8 CHAIRPERSON MIDDLETON: All right. Thank you and
9 thank you for a very strong presentation.

10 It is my understanding that you will be taking a
11 focused a look at the dormant account program. Is there
12 anything that you would like to say publicly regarding
13 your plans in that area?

14 MR. KIM: Sure. Sylvia, you want to address this
15 one.

16 MS. MAK: Sure. So, yes, we are aware of the
17 April press release that was re -- that was released
18 related to the inappropriate access to particular dormant
19 retiree accounts. We understand there's an ongoing
20 investigation. And as part of our audit, we will continue
21 to stay up-to-date on the progress of that investigation,
22 as well as from an audit perspective, we will be
23 performing additional procedures in order to address any
24 risks that may arise as part of that.

25 CHAIRPERSON MIDDLETON: All right. Thank you.

1 Are there questions for BDO?

2 I do not see any, which -- and in light of the
3 fact that we do not have any, this is an action item, can
4 I get a motion to approve?

5 VICE CHAIRPERSON MILLER: Move approval.

6 CHAIRPERSON MIDDLETON: Mr. Miller.

7 Second?

8 ACTING COMMITTEE MEMBER PAQUIN: Second.

9 CHAIRPERSON MIDDLETON: Second, Ms. Paquin.
10 Roll call, please.

11 COMMITTEE SECRETARY HOPPER: Margaret Brown?

12 Did we lose her?

13 VICE CHAIRPERSON MILLER: I think we've lost her.
14 I do not see her.

15 COMMITTEE SECRETARY HOPPER: And I do not see her
16 in the attendee list as well.

17 MEETING MODERATOR: This is Jared. I think she's
18 on the phone. She's the 949 number.

19 VICE CHAIRPERSON MILLER: I do not see that.

20 MEETING MODERATOR: I did unmute her, so she
21 should be able to speak.

22 CHAIRPERSON MIDDLETON: Ms. Hopper, go ahead and
23 try one more time.

24 COMMITTEE SECRETARY HOPPER: Okay. Margaret
25 Brown?

1 I see her in the attendee list, but she has her
2 phone on mute.

3 Frank Ruffino for Fiona Ma?

4 ACTING COMMITTEE MEMBER RUFFINO: Aye.

5 COMMITTEE SECRETARY HOPPER: David Miller?

6 VICE CHAIRPERSON MILLER: Aye.

7 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

8 COMMITTEE MEMBER WESTLY: Aye.

9 COMMITTEE SECRETARY HOPPER: Lynn Paquin for
10 Betty Yee.

11 ACTING COMMITTEE MEMBER PAQUIN: Aye.

12 COMMITTEE SECRETARY HOPPER: Madam Chair, we have
13 four ayes. Motion made by David Miller, seconded by Lynn
14 Paquin for Betty Yee and that's on Agenda Item 6b,
15 independent auditor's annual plan.

16 And one more time, Margaret Brown?

17 CHAIRPERSON MIDDLETON: I do not see her.

18 Mr. Miller, you have a comment.

19 VICE CHAIRPERSON MILLER: Yeah, just a -- I just
20 wanted to say a quick thank you. As the former Chair of
21 the Committee and as still on the Committee as Vice Chair,
22 I've really appreciated working with Billy, Sylvia, Steve
23 the team Dipika, and really look for -- forward to
24 continuing to work with you all, and the fine work you've
25 done. And I'm glad to see a very comprehensive plan that

1 really addresses the risks that we're facing and just
2 looking forward to more and better.

3 CHAIRPERSON MIDDLETON: All right.

4 MR. KIM: Thank you, Vice Chair.

5 CHAIRPERSON MIDDLETON: Thank you for that.

6 Mr. Kim, your team, it's a pleasure always
7 working with you and we look forward to seeing you in
8 November.

9 MR. KIM: All right. Thank you.

10 CHAIRPERSON MIDDLETON: With that, we will move
11 on to information items. 7a is the 20-21 annual
12 compliance report from Ms. Timberlake D'Adamo.

13 (Thereupon a slide presentation.)

14 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

15 Yes. Hi. Good afternoon again. This is a
16 standing item that we bring to you every year. This is
17 the second year that we've brought it in June.
18 Previously, we'd brought it in November. And this item is
19 a report of the enterprisewide compliance act --
20 compliance and risk management activities that have
21 occurred throughout the enterprise.

22 In the document on slide 2, we have --

23 --o0o--

24 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

25 -- a general letter from me. We talk about

1 culture of compliance. We include the integrated
2 assurance model, which you are all familiar with in terms
3 of our three lines of defense, and then we go from pages
4 five to seven --

5 --o0o--

6 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
7 -- on the Enterprise Compliance Office,
8 Compliance and Risk Office.

9 And then beginning on page eight through 12 --

10 --o0o--

11 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
12 -- we actually include the compliance and risk
13 management activities of our partners and the businesses,
14 including the Actuarial Office, Customer Service and
15 Support, Health Policy and Benefits, Investment Office
16 Legal Office, and our Operations Branch.

17 So with that, I'd be happy to take any questions,
18 if there are any. And this is an information item.

19 CHAIRPERSON MIDDLETON: Are there any questions
20 for Ms. Timberlake D'Adamo?

21 I can't see all of my colleagues, so maybe we
22 could get back to the full gallery. There we go. Thank
23 you. I do not see any questions in the chat and I don't
24 see any hands being raised, so thank you very much for a
25 really good report.

1 And that will take us to the next agenda item
2 that I've got to turn back to, which is 7b, Summary of
3 Committee Direction.

4 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: I
5 did not -- I did not take any direction.

6 CHAIRPERSON MIDDLETON: We didn't give you any,
7 so --

8 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
9 There you go.

10 CHAIRPERSON MIDDLETON: That's right. Thank you.
11 So that takes us to Item 7c, which is public
12 comment. Mr. Fox, do we have any public comment?

13 STAKEHOLDER RELATIONS CHIEF FOX: Madam Chair,
14 no, there are no callers.

15 CHAIRPERSON MIDDLETON: All right. With that, we
16 will be moving into closed session. I am not certain how
17 long the closed session is going to last. We will have a
18 short reporting out in open session at the conclusion of
19 our closed session.

20 And with that, I will ask that we move -- we will
21 need to leave these screens and head into the closed
22 session sign-on. So I will see everyone virtually in just
23 a moment.

24 (Off record: 4:10 p.m.)

25 (Thereupon the meeting recessed)

1 into closed session.)

2 (Thereupon the meeting reconvened
3 open session.)

4 (On record: 4:32 p.m.)

5 CHAIRPERSON MIDDLETON: The Risk and Audit
6 Committee met in closed session. There was no reportable
7 actions. And with that, I believe we stand adjourned from
8 Risk and Audit Committee.

9 We will reconvene tomorrow morning at 9 a.m. for
10 the Performance, Compensation and Talent Management
11 Committee. And with that, have a good evening, everyone.

12 (Thereupon the California Public Employees'
13 Retirement System, Board of Administration,
14 Risk & Audit Committee open session
15 meeting adjourned at 4:32 p.m.)
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CERTIFICATE OF REPORTER

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Risk & Audit Committee open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 19th day of June, 2021.



JAMES F. PETERS, CSR
Certified Shorthand Reporter
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