

REPORT TO THE RISK AND AUDIT COMMITTEE

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

AUDIT WRAP UP:
YEAR ENDED JUNE 30,
2022

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Contents

QUICK ACCESS TO THE
FULL REPORT

[STATUS AND RESULTS OF AUDIT](#)

3

[INTERNAL CONTROL OVER FINANCIAL REPORTING](#)

8

[ADDITIONAL REQUIRED COMMUNICATIONS](#)

10

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 CalPERS, and is not intended and should not be used by anyone other than these specified parties.

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Status and Results of Audit



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Status and Results the Audit

We have audited the financial statements of the fiduciary activities and proprietary activities of California Public Employees' Retirement System (CalPERS), a component unit of the State of California, as of and for the year ended June 30, 2022. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of Risk and Audit Committee in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

- ▶ The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- ▶ The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications presented to you on June 14, 2022.
- ▶ We expect to issue unmodified opinions on the financial statements and release our report on November 18, 2022.
- ▶ We also expect to issue at the same time, our 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*.
- ▶ Our responsibility for other information in documents containing CalPERS' audited financial statements (e.g. management's discussion and analysis, required supplementary information) does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by CalPERS and considered whether such information, or the manner of its presentation, is materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- ▶ All records and information requested were freely available for our inspection.
- ▶ Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of CalPERS' personnel throughout the course of our work.

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Results of the Audit

SIGNIFICANT ACCOUNTING PRACTICES AND POLICIES

The following summarizes the more significant required communications related to our audit concerning CalPERS' accounting practices, policies, and estimates:

CalPERS' significant accounting practices and policies are those included in Note 2 to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note 2 to the financial statements.

- ▶ A summary of recently issued accounting pronouncements is included in Note 17 to CalPERS' financial statements. CalPERS did not adopt any significant new accounting pronouncements during the year ended June 30, 2022.
- ▶ There were no changes in significant accounting policies and practices during the year ended June 30, 2022.

SIGNIFICANT ACCOUNTING ESTIMATES

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. CalPERS' significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in the notes of the financial statements.

Significant estimates related to significant risks include:

- ▶ *Private Equity and Real Asset Investments* - Management's estimate of these investments at net asset value is based on inputs from investment managers, appraisals, and/or benchmark analysis to estimate the change in value from the investment's last audited financial statement date to CalPERS' fiscal year end.

- ▶ *Long Term Care Fund Liabilities* - Management's estimate of the liability for future policy benefits is based on an actuarial analysis utilizing inputs such as discount rate as well as rates of morbidity, mortality, and policy lapse. A settlement liability related to the recent Long Term Care class action of \$2.9 billion was reversed due to a change in estimate of the liability as there was a termination of the settlement in April 2022 and as of June 30, 2022, a settlement is not expected.

Other estimates - key areas of focus:

- ▶ *Health Care Fund Estimated Insurance Claims Due* - Management's estimate of incurred but not reported (IBNR) insurance claims is based on an actuarial analysis utilizing inputs such as current claims data and historical patterns.
- ▶ *Pension Liabilities* - Management's estimate of the total pension liability disclosed for its single-employer and multiple-employer cost sharing defined pension plans are prepared by CalPERS actuaries and based on certain actuarial assumptions including discount rate, rates of termination and mortality.

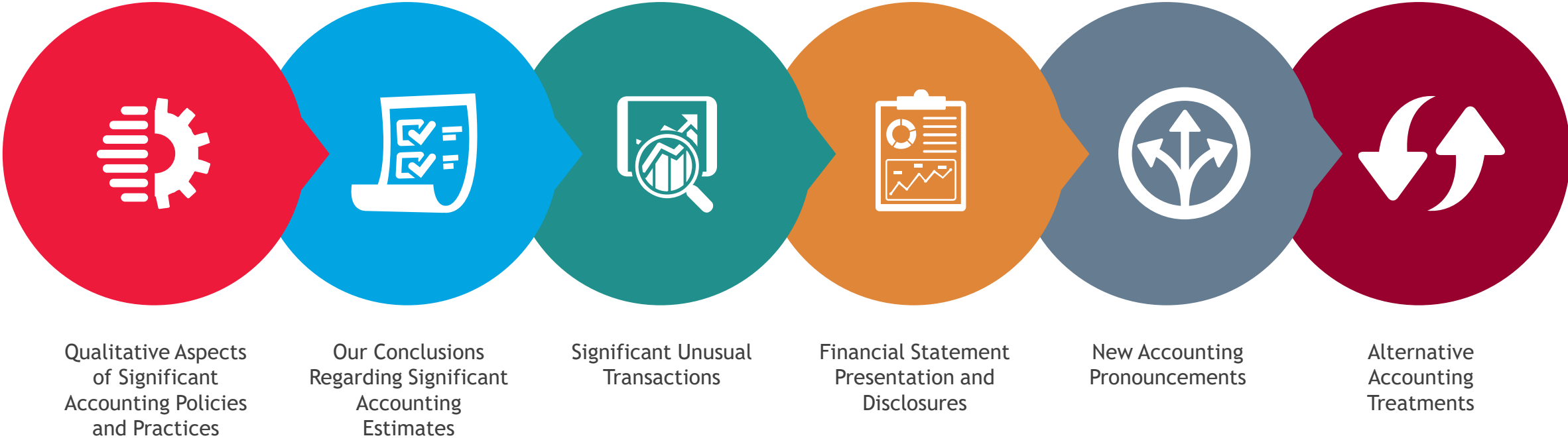
As part of our audit procedures, we evaluated the propriety of the inputs, assumptions, and methodologies used to develop the estimates, including consideration of the competency and objectivity of management's experts as well as the risk of possible management bias. We determined the estimates are reasonable in relation to the financial statements.

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Results of the Audit

QUALITATIVE ASPECTS OF THE CALPERS' FINANCIAL REPORTING

We have discussed with the Risk and Audit Committee and management about the quality of CalPERS' financial reporting.



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Results of the Audit

CORRECTED AND UNCORRECTED MISSTATEMENTS

See below for a schedule of corrected misstatements that we brought to the attention of management.

Account	Debit	Credit
Investment Sales & Other (Receivable)	\$667,441,000	
Public Equity		\$667,441,000
To reclassify proceeds receivable related to the secondary sale of certain private equity investments from Public Equity to an Investments Receivable.		

There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.



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Internal Control Over Financial Reporting



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Internal Control Over Financial Reporting

In planning and performing our audit of CalPERS' financial statements, we considered CalPERS' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of CalPERS' internal control. Accordingly, we do not express an opinion on the effectiveness of CalPERS' internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in CalPERS' internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness are noted below:

Category	Definition
Control Deficiency	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of CalPERS' financial statements will not be prevented or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses.

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Additional Required Communications



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Other Required Communications

Requirement	Discussion Point
Significant changes to planned audit strategy or significant risks initially identified	<p>There were no significant changes to the planned audit strategy or key areas of focus initially identified and previously communicated to those charged with governance as part of our Audit Planning communications. Significant risks are assessed risks of material misstatement that, in the auditor's professional judgment, requires special audit consideration.</p> <p>The key areas of focus that represent significant risks associated with the audit are related to the following financial statement areas:</p> <ul style="list-style-type: none">- Valuation of Private Equity and Real Asset Investments (and related unrealized gain/losses recorded) that have different year-ends compared to CalPERS- Valuation of Long Term Care Fund Liabilities for Future Policy Benefits- Risk of fraud over revenue recognition of Premiums and Administrative Fees Earned
Obtain information from those charged with governance relevant to the audit	<p>There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding CalPERS' financial reporting that we were made aware of as a result of our inquiry of those charged with governance.</p>
Nature and extent of specialized skills or knowledge needed related to significant risks	<p>The nature and extent of specialized skills or knowledge needed to perform the planned audit procedures or evaluate audit results related to significant risks are outlined below:</p> <ul style="list-style-type: none">- Investments - We utilized BDO valuation specialists to assist in auditing the valuations related to Investments including the valuation methodology used and the key assumptions included.- Long Term Care Fund Liabilities for Future Policy Benefits - We utilized BDO actuarial specialists to assist in auditing the actuarial analysis that support the associated liabilities recorded including the review of the methodology and assumptions included.- Cybersecurity - We utilized BDO's cyber advisory team to perform a review of CalPERS' cybersecurity program as part of our understanding of the internal controls of the organization, and to potentially highlight any relevant high-level gaps and risks.

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Other Required Communications

Requirement	Discussion Point
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
Significant findings and issues arising during the audit in connection with CalPERS' related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.
Significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management	There were no significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to CalPERS' financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Matters that are difficult or contentious for which the auditor consulted outside the engagement team	There were no difficult or contentious matters that we consulted with others outside the engagement team that we reasonably determined to be relevant to those charged with governance regarding their oversight of the financial reporting process.
Representations requested from management	A management representation letter will be received from management upon issuance of the financial statements.
Other Matters	There are no other matters that we consider significant to the oversight of the CalPERS's financial reporting process that have not been previously communicated.


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Independence

Our engagement letter to you dated January 18, 2022 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 CalPERS with respect to independence as agreed to by CalPERS. Please refer to that letter for further information.

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