MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

RISK AND AUDIT COMMITTEE

OPEN SESSION

ROBERT F. CARLSON AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

MONDAY, JUNE 13, 2016

4:47 P.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
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A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Ron Lind, Chairperson

Ms. Dana Hollinger, Vice Chairperson

Mr. J.J. Jelincic

Ms. Priya Mathur

Mr. Bill Slaton

Ms. Betty Yee, represented by Mr. Alan Lofaso

BOARD MEMBERS:

Mr. John Chiang, represented by Mr. Eric Lawyer

Mr. Richard Gillihan, represented by Mr. Ralph Cobb

STAFF:

Ms. Cheryl Eason, Chief Financial Officer

Mr. Matthew Jacobs, General Counsel

Ms. Cheryl Dietz, Supervising Management Auditor

Mr. Forrest Grimes, Chief Risk Officer

Ms. Young Hamilton, Assistant Chief Auditor

Ms. Carrie Lewis, Committee Secretary

Ms. Renee Ostrander, Chief, Employer Account Management Division

Ms. Marlene Timberlake D'Adamo, Chief Compliance Officer

A P P E A R A N C E S   C O N T I N U E D

ALSO PRESENT:

Mr. David Bullock, Macias, Gini & O'Connell

Ms. Debbie Chan, Macias, Gini & O'Connell

Mr. Rick Green, Macias, Gini & O'Connell

I N D E X

I N D E X   C O N T I N U E D

P R O C E E D I N G S

CHAIRPERSON LIND: All right. We're going to call to order the Risk and Audit Committee meeting.

Please take the roll.

COMMITTEE SECRETARY LEWIS: Ron Lind?

CHAIRPERSON LIND: Here.

COMMITTEE SECRETARY LEWIS: Dana Hollinger?

VICE CHAIRPERSON HOLLINGER: Here.

COMMITTEE SECRETARY LEWIS: J.J. Jelincic?

COMMITTEE MEMBER JELINCIC: Here.

COMMITTEE SECRETARY LEWIS: Priya Mathur?

COMMITTEE MEMBER MATHUR: Here.

COMMITTEE SECRETARY LEWIS: Bill Slaton?

COMMITTEE MEMBER SLATON: Here.

COMMITTEE SECRETARY LEWIS: Theresa Taylor?

CHAIRPERSON LIND: Excused.

COMMITTEE SECRETARY LEWIS: Alan Lofaso.

ACTING COMMITTEE MEMBER LOFASO: Here.

CHAIRPERSON LIND: Thank you. Next item is the Executive report. Ms. Eason.

CHIEF FINANCIAL OFFICER EASON: Thank you. Good afternoon or good evening, Mr. Chair and Committee members. Cheryl Eason CalPERS staff. Today's meeting has several strategic action items I wish to draw to your attention.

As we wind down the 2015-16 fiscal year and prepare for our year-end, we begin to move our focus to the 2016-17 Enterprise Compliance, Enterprise Risk Management, and the Office of Audit Services annual plans. These action items today focus on the major goals and activities and priorities for the coming fiscal year from an integrated assurance approach for each of the Compliance, Risk, and Audit Services areas.

Focusing on the current 2015-16 fiscal year, Mr. Green from Macias, Gini & O'Connell will present the independent auditor's 2016 annual plan for the Committee's review and approval. This item provides an overview of the MGO's scope, objectives, and deliverables for this year's audit.

Related to the year-end financial reporting, I'm pleased to inform the Committee that for the first time CalPERS has been awarded by the State Information Officers Council with a Gold Award for Excellence in State Government Communications for its 2015 Comprehensive Annual Financial Report, or CAFR. This annual report went beyond the look of a traditional report with a sound decision sustainable growth theme that was a new and innovative approach for CalPERS CAFR. Thanks to everyone for their efforts on this achievement.

There are 2 information items that I wish to bring to your attention. The Audit Resolution Policy revision reflects changes that address the Committee's comments regarding acceptance of risk, as well as other minor edits suggested in April's Risk and Audit Committee.

The second information item, the Semi-annual Risk Report, describes the transition to the revised risk management framework to more clearly identify and manage top risks to CalPERS. CalPERS Chief Risk Officer, Mr. Grimes, will be providing details on the process that refines the enhanced risk reporting going forward.

And then finally, one of our CalPERS staff, Kami Niebank, CalPERS Deputy Chief Compliance Officer, is being spotlighted in tomorrow's issue of Compliance Week Magazine, as one of their "Top Minds Projects", which is a series of in-depth profiles of compliance officers and experts in the compliance field.

The project aims to better understand how these compliance officers view the world of compliance, lessons learned, and what they think tomorrow's challenges and opportunities will be.

So congratulations, Kami.

And the next Risk and Audit Committee meeting is scheduled for September 20th, 2016 and will include the finalist selection for the independent financial statement auditor and the review of external audit fees.

And with that, this concludes my report. And I'd be happy to take any questions.

CHAIRPERSON LIND: I don't see any.

So may we please have a motion to approve the minutes of April 19th.

COMMITTEE MEMBER JELINCIC: I'll move.

COMMITTEE MEMBER MATHUR: Second.

CHAIRPERSON LIND: Motion by Jelincic, second by Mathur.

All in favor say aye?

(Ayes.)

CHAIRPERSON LIND: Any opposed?

That motion carries.

We do have a request to pull one item off of the consent items, which is 4d, at the request of Mr. Jelincic, so we will go to that, as soon as I -- you click your button and I click mine.

COMMITTEE MEMBER JELINCIC: A couple of things. One, originally when I read it, I asked to pull it based on page 3 of 3. Part of what it does is it changes the approved audit plan that was approved by this Committee and ultimately approved by the Board. And I just didn't think it should be on a consent item, if it is altering something that ultimately the Board had decided.

I do not know that it is unreasonable, but I just think if you're going to make a change to something the Board adopted, it should not be on consent.

In the briefing, the issue came up that we have our -- the findings are consistently in compensation and payroll, and -- so obviously, we're not doing the communication we need. But one of the things that could not be explained is what is the difference between compensation, which is 47 percent of the findings, and payroll, which is 28 percent of the findings? You know, between the two that's, what, 85 percent of the findings. So can we have a discussion about the difference between pension -- or compensation and payroll, and then a discussion on the changes you're making and the things you're deferring.

ASSISTANT CHIEF AUDITOR HAMILTON: Good afternoon, Mr. Chair and members of the Committee. Young Hamilton, CalPERS staff. I'm filling in for Beliz Chappuie today.

The question you have is related to our public agency audit, so we're going to have our Assistant Division Chief over the Public Agencies to address your concerns.

SUPERVISING MANAGEMENT AUDITOR DIETZ: Good afternoon. Cheryl Dietz, Office of Audit Services.

So you had a question regarding the difference between the compensation and the payroll, is that correct?

COMMITTEE MEMBER JELINCIC: Yes.

SUPERVISING MANAGEMENT AUDITOR DIETZ: So when we say we have compensation findings, we're talking about the compliance with the Government Code related to compensation earnable, such as pay rate not being supported by the pay schedule. And then when we talk about payroll findings, we're being pretty specific about payroll elements being reported, such as monthly pay rate being reported as hourly, or work schedule code that they say -- when they report their payroll they say 56 hours, but they truly are working 40 hours, both of which could impact retirement allowance.

COMMITTEE MEMBER JELINCIC: And how is that not a compensation issue? I'm just confused between the two.

SUPERVISING MANAGEMENT AUDITOR DIETZ: Well, and I think the reason we separated it is when we do our exits with the program, they have 2 different areas within CSS, one works with compensation and making sure it's in compliance, the other one is working with the agencies reporting on payroll. So that's how we -- that's why we do it that way, because it's different. They work together, but yet they -- different divisions -- or, I don't know, units within that division do payroll, and they work closely together with compensation.

COMMITTEE MEMBER JELINCIC: If they're not reporting the compensation properly --

SUPERVISING MANAGEMENT AUDITOR DIETZ: Correct.

COMMITTEE MEMBER JELINCIC: -- doesn't that spill over into the payrolls where the codes aren't matching up? I mean --

SUPERVISING MANAGEMENT AUDITOR DIETZ: Well, no, because they may not report -- so they may not report reportable compensation, let's say special compensation that should be reported. So you wouldn't see it in the payroll reporting. But when they go to fix it, it will have a -- they will need to work with payroll in that.

COMMITTEE MEMBER JELINCIC: Clear as mud.

And then the status of the audit plan.

SUPERVISING MANAGEMENT AUDITOR DIETZ: Renee, do you want to talk about the compensation.

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: So I can probably enhance that a little. Renee Ostrander, CalPERS staff.

So our compensation area is really about whether or not it's reportable. And the distinction is for payroll it is reportable, but they didn't report it correctly. So, yes, when you have a compensation issue, it does impact payroll, because eventually whether or not we determine it is reportable or it isn't reportable to us, then it would -- then those teams would work with our payroll teams to make sure it's reported properly.

Whereas if it's a payroll issue, it doesn't have anything to do with the compensation area of determining whether or not it's reportable, it's that they report the correct elements correctly to us.

COMMITTEE MEMBER JELINCIC: So I'm getting clearer. Is there some that are both compensation -- the same errors, both compensation and payroll?

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: Yes, we will have some areas. So like I was mentioning, if we determine that something -- for example, something should be reported that they haven't been reporting. Uniform allowance, and so we say the uniform allowance should be reported, then our compensation team will work with our payroll team to get it reported correctly. So our compensation team starts with the employer getting them to understand the reasons why it needs to be reported, what the amounts are that needs to be reported, and then our payroll team will follow up to make sure it actually is reported correctly.

COMMITTEE MEMBER JELINCIC: So the 85 percent is somewhat overstated?

EMPLOYER ACCOUNT MANAGEMENT DIVISION CHIEF OSTRANDER: No, it's not, because it does take -- there's each individual finding. So when we say that it's a compensation finding, those compensation findings typically deal with not just our compensation area, but may also deal with our payroll area, but they are two separate. When we identify a finding, it's only identified as an impact to one area. So it's identified as a compensation finding or as a payroll finding, but it could impact multiple areas. The same thing happens with our retired annuitants. Those could impact both our working after retirement area, in addition to our membership area, but we only count it one time.

COMMITTEE MEMBER JELINCIC: Okay. And the -- and can someone talk about the initiatives that are being deferred on top of page 3 and why those...

ASSISTANT CHIEF AUDITOR HAMILTON: Those were the projects that were deferred due to the number of vacancies that we had in our office. We didn't have the resources to do it.

COMMITTEE MEMBER JELINCIC: Okay. So it's simply a resource issue.

ASSISTANT CHIEF AUDITOR HAMILTON: Yes.

COMMITTEE MEMBER JELINCIC: And the decision -- other things are higher priorities than these?

ASSISTANT CHIEF AUDITOR HAMILTON: Right, because some of the audits were already in progress. And these were the ones that we had not initiated.

COMMITTEE MEMBER JELINCIC: And does that suggest that we have a resource issue going forward or do you think you're going to be able to fill the vacancies and not need the additional resources?

ASSISTANT CHIEF AUDITOR HAMILTON: We just needed to fill the vacancies, so it will be deferred to -- as soon as we fill the vacancies, we can start audit.

COMMITTEE MEMBER JELINCIC: Okay. Thank you.

CHAIRPERSON LIND: Thank you.

Okay. We're now on to the action agenda items. First up is the 2016-17 Enterprise Compliance Plan.

(Thereupon an overhead presentation was presented as follows.)

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

Good afternoon, Marlene Timberlake D'Adamo, staff CalPERS staff.

Sorry. This is my first time using this.

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CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

Good afternoon. In the interests of time, I'm not going to go through every single page of the report. However, I will focus on a couple of pages that I think will highlight what we intend to do for 2016-17.

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CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: In starting my comments however -- and actually I'm on page -- I'm sorry, page 4, which is --

COMMITTEE MEMBER MATHUR: 42

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: -- 42 of 113 in the Board books.

Here, this should be somewhat familiar to you ladies and gentlemen of the Board -- of the Risk and Audit Committee. This is actually a discussion of our '16 and '17 -- our '15, '16, and '17 progress. The blue bars, or boxes, are really the elements of an effective compliance program. And what we've done is we've made the white boxes indicative of our focus areas for 2016 and '17, and the tan boxes are indicating areas where work is underway.

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CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

Slide 5 is one that you've seen before. This is really our five year compliance program.

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CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: And slide 6 is where I will spend probably the majority of the time in this presentation talking about what we intend to do for 16-17. Although, I would like to go back just one bit, because I do neglect to mention sort of where we were in 2015-16.

So in 2015-16, our focus areas were to expand protocols and processes for operational controls, policy management, reporting standards, and to continue developing compliance principles, standards, and culture.

For 2016-17, our focus areas are going to include continuing to mature protocols and processes in all areas, rolling out standards and frameworks to additional program areas, and continuing to mature compliance principles, standards, and culture. So on this slide 6, what I'd really like to focus on here is information regarding where we think we are in terms of the development stage for 16-17 and where we're going to be spending our time.

The blue boxes on the left-hand side of this document are really the focus areas for 16-17. And the '16 in the middle we're talking about and giving some examples of some initiatives. These are things that we intend to be doing during 16-17.

On the right-hand side for the development stage, we've actually taken and made an effort to really peg where we think we are in terms of progress. And so if you look at the first enterprise ethics, we think that we are in the -- in the reinforce area. And this is because this area is one that has been operational for some time. And we think that where we'd like to spend our time here is really embarking on continuous improvement activities.

For the compliance and ethics communication education and reporting, here we think that we're in between the plan and design and the build section. And here, we're looking at doing training, communications, and focusing on things where we have externally mandated reporting.

On enterprise, policy, and delegations, we think that we are well into the build area here. And here, we've highlighted things like enterprise policy management implementation, delegation management, and authoritative sources protocols and implementation.

And lastly, on enterprise compliance monitoring and oversight, we think that we are just finishing the plan and design, and entering into the build area. And focuses in this area are going to be monitoring, oversight, reporting, personal trading monitoring and oversight, and embedded compliance development and implementation.

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CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

Pages 7 through 10 really are pages that tease out essentially what was on page 6. And so I'm not going to go into them in detail, because they really do just provide a little bit more detail around what I had just stated on page 6.

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CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So at this point, I will wrap-up and ask if there's any questions. I want to thank you all for your time, and see if anybody has any questions.

CHAIRPERSON LIND: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: I continue to remain uncomfortable with ICOR reporting to Investments. It makes sense to embed them there, but the reporting is troublesome.

Are all of the embedded compliance people going to report to the people that they are monitoring compliance of or are they going to -- are the others going to report to ECOM?

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So the model that we have right now is where we have, what we call, embedded compliance liaisons. And the ICOR folks are also liaisons. It's an arm where they are reporting up through the Investment Office. We have liaisons in other areas. Right now, we have 2. We're looking to expand that area into other branches, and the expectation is that those liaisons will report up through the respective program area. They work with us. They attend meetings with us. We have lots of different communications and planning that we do. But the idea is that they will report up through the branch that they're part of.

COMMITTEE MEMBER JELINCIC: Okay. And I will continue to remain uncomfortable with it, but I believe I've lost that argument.

On the enterprise ethics and the whistle blower and the hotline, I would like to see us actually any time there is a complaint that impacts CalPERS employees, I think that ought to be called out maybe in closed session. But if we -- that's really where we're going to get a early whistle that there maybe a problem. You know, if we had had in place, we might have caught Fred earlier.

But I'd like -- I'm not going to insist on it, but I want you to really think about if we really are into transparency and we really want to be, you know, cleaner that be Caesar's wife, then I think, quite frankly, we need to have that early warning label. And those were the points I wanted to make.

CHAIRPERSON LIND: Ms. Mathur.

COMMITTEE MEMBER MATHUR: Yeah. No, I just wanted to say that I think this is -- the plan for 2016-17 is sensible, and that I'm really encouraged by all the work that is already underway and just feel that our compliance program is maturing in the right way. I'm very pleased to have you on board too, Ms. D'Adamo.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
Thank you. I appreciate that.

CHAIRPERSON LIND: Yeah, I just wanted to add that I appreciate the way that this is laid out for us in this presentation, because it reminds us that our program here is not a finished product. It's a work in progress, so we look forward to continuing to hear and see the great work that we're going to be doing moving forward.

So thank you.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
Thank you. I would like to thank the staff, because they've worked really hard to put this together. And they're very interested to make sure that we have a best-in-class program.

CHAIRPERSON LIND: Great. Thank you.

So next -- oh, we do need a motion to approve.

COMMITTEE MEMBER MATHUR: Move approval.

VICE CHAIRPERSON HOLLINGER: Second.

CHAIRPERSON LIND: Moved by Mathur, second by Hollinger.

Anything on the question?

All in favor say aye?

(Ayes.)

CHAIRPERSON LIND: Any opposed?

Motion carries.

Now, we're on to the 2016-17 Enterprise Risk Management Plan.

(Thereupon an overhead presentation was presented as follows.)

CHIEF RISK OFFICER GRIMES: Good afternoon, Mr. Chair and Committee members. Forrest Grimes, CalPERS staff. I'm also going to shorten my presentation in the interests of time. And certainly, if you have questions along the way or at the end, I'd be happy to answer them.

CHAIRPERSON LIND: Forrest, could you move the microphone a little bit closer?

CHIEF RISK OFFICER GRIMES: Oh, certainly. I'm sorry.

CHAIRPERSON LIND: Thank you.

CHIEF RISK OFFICER GRIMES: During the coming year, the Enterprise Risk Management Division will work to further strengthen the Integrated Assurance Model, which, as you know, includes risk, compliance, and audits. We will conduct integrated assurance interviews with each division and executive, and then we will also work in 4 additional key areas, which include education and training, asset liability management, refinement of the Enterprise Risk Management framework, which we'll go into more detail on in the Item 9a, and finally establish an enterprise-wide risk management program, which includes the integration with strategic planning. So those are the 4 main areas that we're going to be working in. Do you have any questions on any of those or would you like me to go into more detail?

CHAIRPERSON LIND: We do have a question from Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: When you do this next time, you refer to the budget and said -- just said it's coming out of the approved Enterprise Risk Divisions. Next time, I think it would be helpful to identify what that budget is, the resources you have.

And the other observation I would make is that at the top of the page, one of your goals is establishing risk appetites and tolerances. And I wish you good luck on getting this Board to help you with that.

CHIEF RISK OFFICER GRIMES: Okay. Well, thank you for that.

CHAIRPERSON LIND: Ms. Mathur.

COMMITTEE MEMBER MATHUR: Thank you.

Well, I was going to say that I actually think it's a very good next step for us to, as a Board -- and as a Committee first and then as a Board to consider what our risk appetite tolerances are in risk areas. It's a very challenging thing to do, but I think it is absolutely appropriate for us to consider what is -- how many -- how much resources do we want to assign to mitigate a particular risk and how much risk are we willing to withstand?

And that is our job. It might be a difficult one, but it is our job to consider that in collaboration with the executive team. So I appreciate that that's The next step in what we're going to do. And I also appreciate what you mentioned about integration with the strategic plan, because I do think clearly what we have identified as key risks has to be considered in terms of what we -- how we develop our strategy should feed into that, but then also as part of our strategy we should be -- some of -- our metrics should also reflect perhaps risk mitigation, or the Reduction of risk in certain areas.

So I think it's sort of an iterative thing, but it is -- it is something that I hope is well integrated this dime around and would mean a big step forward.

CHIEF RISK OFFICER GRIMES: Well, thank you for your comments, Ms. Mathur. And I think that in 9a we'll get into certainly the risk appetite concept in more detail. And I think we're really coming to some logical next steps of how to implement that.

COMMITTEE MEMBER MATHUR: Great. Thank you.

CHIEF RISK OFFICER GRIMES: Thank you.

CHAIRPERSON LIND: Okay. No further questions.
Is there a --
COMMITTEE MEMBER MATHUR: Move it.
CHAIRPERSON LIND: Okay. Motion by Mathur to approve the plan. Is there a second?
VICE CHAIRPERSON HOLLINGER: Second.
CHAIRPERSON LIND: Second by Hollinger.
Anything on the motion?
All in favor say aye?
(Ayes.)
CHAIRPERSON LIND: Any opposed?
Motion carries. Thank you, Forrest.
Next up is the audit, the independent auditor's 2016 annual plan.
(Thereupon an overhead presentation was presented as follows.)
CHAIRPERSON LIND: Welcome to Rick and his team.
MR. GREEN: Thank you.
ASSISTANT CHIEF AUDITOR HAMILTON: Good afternoon, Mr. Chair and members of the Committee. Young Hamilton, CalPERS staff.
Agenda Item 7a is an action item. Staff is requesting Risk and Audit Committee to approve the Board's independent auditor, Macias, Gini & O'Connell, MGO's, audit plan for the audit of CalPERS financial statement as

of and for the fiscal year-ending June 30, 2016. The presentation is to provide the Risk and Audit Committee the opportunity to hear from the independent auditor regarding their approach, objectives, scopes, and deliverables, and enable the Committee to ask questions.

Presenting with me today is Rick Green, the engagement partner with MGO.

MR. GREEN: Yeah. Can you hand me the clicker for the slides.

(Thereupon an overhead presentation was presented as follows.)

MR. GREEN: Well, thank you very much. Thank you for the Opportunity, members of the Committee, to present our audit plan for the fiscal year-ending June 30th, 2016. In addition to myself, to my right is a partner in our practice David Bullock and you guys -- you've seen Debbie Chan a director in our practice as well. Both will be joining us in performing our work this year.

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MR. GREEN: I'd like to begin -- hopefully, we can get this -- okay. There we go. I'd like to begin by introducing our engagement team. These year, as we have in the past, very robust engagement team designed to address the complexities that this organization has from a financial accounting and reporting perspective.

You'll see across the top line, there are 3 partners assigned to this engagement. Again, I'll be the engagement partner, but we've added David Bullock this year to the engagement, again because of some of the unique and advancing complexities that are in the accounting standards. Dave is 1 of 15 people nationwide to sit on the AICPA's State and Local Government Expert Panel that addresses the audit issues that the independent auditor has to consider, and also they design the audit standards guide. So Dave is a good addition to our team this year. So, Dave, thank you, and welcome.

In addition to Dave, we have the two directors, Heather and Debbie Chan, in addition to two audit managers. All very seasoned in performing audits of public employee retirement systems. You'll also see that we have 3 actuaries that are part of our engagement team. Again, each of those individuals experienced in the area of defined benefit pension plans, as well as health and long-term care obligations, as well as OPEB's. And then finally, you'll see an IT professional who will be addressing the IT issues associated with the work that we perform.

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MR. GREEN: So with respect to the scope of our work, again as I previously mentioned, we have been engaged to perform the financial statement audit for CalPERS for the year-ending June 30th, 2016. Now, as a by-product of that effort, there are 3 products, the independent auditor's report that accompanies the financial statements, the report to the Risk and Audit Committee, which is a separate document, but it has conversations on communications that are required by the audit standards setters, and then finally, the management comments and recommendation letter as the third and final product that we'll be delivering to you in November.

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MR. GREEN: As far as the independent auditor responsibilities, I like to always remind the Audit Committee of those responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable assurance that the financial statements are free of material error. And in our opinion, that's what we look at, free of material error.

And we do that, we draw that conclusion by obtaining sufficient and appropriate audit evidence as a by-product of our audit procedures. And once that is done, we conclude. So primary responsibility is to opine on the basic financial statements.

Now, within the financial reporting package, you'll also have required supplementary information, it is unaudited. And we say so in our report, but still this information is required by the standard setters in order to put full perspective around the basic financial statements, okay. But the reason -- because we don't -- the reason why we don't opine or it's not audited is because this information, in large part, is not derived from the underlying books and records that we audit or that is a by-product of the financial reporting process. So it's outside of that.

And then finally there -- the area of the supplementary information. This is information that is not part of the basic financial statements. It's not required by the standard setters, such as the RSI, but still management has put it in to supplement the financial statements. This information is a by-product of the books and records that is subject to the audit process. So thus, we render what's called an in-relation-to opinion, okay?

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MR. GREEN: So those are our responsibilities.

Now, again, management's responsibilities in this whole process to prepare the financial statements in accordance with GAAP, which includes free of material misstatement; to design, implement, and monitor internal controls over financial reporting; and then finally, to respond and implement an action plan on our comments should they arise during the course of our work.

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MR. GREEN: The audit timeline very consistent with that in the past. We've begun the planning process. We'll rotate into interim, which we've just barely begun. And then the year-end field work. By the way, the interim work is work that we do, such as obtaining understanding of the environment, updating our understanding of internal controls, testing internal controls. All the work that you can do prior to getting year-end numbers that ultimately will be reflected in the financial statements.

The year-end testing will be done during the year-end field work, which will end in October. And then finally, the report issuance, the 3 documents in which I referred to, the independent auditor's report, as well as the communication with those charged with governance, and management comments. A recommendation letter will be issued in October, and then presented in the November meeting.

Now, one thing that's different this year is we've accelerated the completion and report -- of the management comments and recommendation letter. If you recall, typically we've presented that in February or March, depending upon when the next meeting was subsequent to November.

This year, management has committed, along with our team, to get this before you, along with the other products, so we'll get it all done in one time. Okay.

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MR. GREEN: The audit approach. I want to spend a little bit of time on here, because this is the most important part of what we do. The audit approach, in large part, is a by-product of the audit standards that are promulgated by the AICPA, but those are just -- that's just the minimum hurdle.

What we do is we take the audit standards, and then we tailor or audit approach given our knowledge and -- our institutional knowledge of CalPERS. And so what we do is put it in 3 phases, the planning phase, the execution face, and reporting. The planning is very important. That is where we document our understanding of internal and external factors that could influence the financial reporting, the things that have changed from last year, in this case, since we've been doing the audit, Internally, or look at external factors, such as new accounting standards.

We take into consideration those factors, and then we update our understanding of the system of internal control. And then once we have done that, we rotate or transition into the risk assessment process. This is the most important part of the audit process. It is the point in time where we're we look at the operations, financial reporting of this organization, and we identify areas that have a high degree of inherent risk of material misstatement in the financial statements, so we look for risk indicators.

Things that would indicate risk are such as complex transactions, complex accounting standards, where the recording or measurement of the amounts are difficult, or the disclosures are complicated, such as the investment disclosures, for example.

We look at other areas where there -- it's a voluminous transaction cycle. So the volume of transactions are significantly, like the benefit payments. That tends to give you a little higher degree of inherent risk.

Any areas within the financial statements that are by-products of estimates are another area where you tend to have higher inherent risk. So we identify these areas as part of the risk assessment process, and then we respond to that risk through the design of our audit procedures.

Once we get past that, we go into the execution of our work, again interim and year-end field work, and then finally into the reporting in the 3 documents, in which I already referred to previously.

So as we transition, or as we are going through our planning phase right now, some of the significant audit areas that we anticipate having to address, as a result of our risk assessment, are before you. Investments, as you would expect, and related income, estimated insurance claim liabilities in your proprietary.

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MR. GREEN: Contribution of Benefit payments. And again, because of the voluminous nature of the transaction cycle. Premium revenue, claims expenses, and then actuarial valuations for your cost-sharing plan. Again, with the implementation of GASB 67, the cost-sharing plan, actual information for the net pension liability and other related pension amounts are included in there. So we do a lot of work with the actuarial sciences.

And if -- active member census data testing is another one. We do a lot of work in census data area for the cost-sharing plans.

And finally, we've got a new accounting standard, GASB 72, that speaks to fair value that Dave will cover in a minute we'll be some -- an area, because it's a new disclosure significant risk.

And finally, Management is contemplating the early implementation of GASB 74, which relates to the OPEB. So that -- should it be early implemented, it would be addressed as well.

But in addition to this, I want you to know that we're also continuing to build on other areas of our work in the past. And, for example, we will be -- we will be -- actually, let's go to the next slide.

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MR. GREEN: So as a result of these risk areas, what we do is we design more tailored or robust audit procedures, some of which will include bringing in specialists to augment our own experience.

So with regard to some of the more significant or robust audit procedures, we will be reviewing general partner financial statements. This is primarily in the area of private equity investments, because of the valuation issues. And just in that area there, we look to see that these financial statements have an unqualified opinion. There are no material weaknesses in internal control or significant deficiencies.

We look at the valuation methodology to make sure that it's in accordance with GAAP. So we do much -- a lot of work in there. We look at service organization reports. This will affect the custodians for the assets as well as health care providers. We do a lot of data extraction, where -- especially in the area of benefits and contributions, where we actually test 100 percent of all transactions because of the use of the software as opposed to a sample.

And then finally, we use the actuarial consultants to a great degree for the defined benefit plans, OPEB, as well as health care. They not only look to make sure that the actuarial work that's done internally here is in accordance with the actuarial standards, but also complies with the audit -- or accounting standards as well. And then again, the use of a health care specialist.

So I'm just summarizing -- it's pretty -- this is a summary level. It's a very robust audit approach, audit plan, and we've got a lot of highly qualified people assisting us this year. So with that, I'd like to turn it over to Dave who will talk about some recent developments in the accounting and financial reporting.

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MR. BULLOCK: Okay. So I'm just going to cover some of the recent pronouncements.

GASB has been very busy. You'd think after 67 and 68, they'd give you a little bit of a break, but no. They've been busy. They've issued about a dozen statements over the last year. And so we've summarized 6 statements that will probably have some level of impact to CalPERS. The first one is GASB 72. That's the fair value standards. And fair value is not a new concept. It's been around for about 20 years when they issued GASB 31. But what 72 does is it actually gives you some guidance on how to measure fair value, which was really missing from the previous standards.

And so that will have a small impact, I think, to your overall financial reporting. And management has been working to identify implementation issues. And I think that's pretty much done working with our team. But in addition to the measurement of fair value, there's a lot of additional disclosure, disclosure about the techniques used to measure fair value, and the observable inputs, meaning, you know, how easily it was to determine fair value. And you'll classify your investments into 3 categories showing the hierarchy of those investments. So that will be a change that will be implemented this year. And you'll see the impacts of that when you see the financial statements in November.

The second standard is GASB 73. And this is really to capture pension benefits that weren't administered through trusts. So basically, those pension benefits that weren't part of a trust, which was GASB 67 and 68 really aren't being measured by employers, and they're just doing a pay-as-you-go method for those currently. And what GASB wanted is to capture all pension benefits by the employers. So it doesn't impact you directly. However, you know, one -- some of the benefits that will be subject to this new standard are those pension benefits that exceed the statutory limits under the Internal Revenue Code 415, and therefore employers may be looking to CalPERS for help in trying to determine the value or the extent of those obligations and may need some help there.

The other part of this standard is some amendments to GASB 67 and 68. So they're already looking at, you know, implementation issues that have been observed over the past year in identifying areas that need to be improved. And so they issued some information on trend disclosures, separately finance the employer liabilities, and some revenue recognition issues for employers. So it provides some clarification there.

GASB 74 is the third one we're talking about, and that's on OPEB standards. And so you have the CERBT trust, the OPEB funds that will be affected by that.

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MR. BULLOCK: And 74 is really a mirror of 67, so it's on the plan side and the plan reporting for those

OPEB benefits. And so, as Rick mentioned in the previous slide, management is considering early implementing 74. It's not required until fiscal year-end June 30th, 2017. But earlier implementation may be a benefit for CalPERS. And so I think management is determining whether or not the information is available and whether or not it makes sense to early implement GASB 74.

For 76, that's just establishing the hierarchy of GASB -- or excuse me of GAAP, generally accepted accounting principles. And so GASB is just trying to define what they believe is the hierarchy that prepares the financial information should be looking to as they prepare financial statements.

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MR. BULLOCK: The fifth item is GASB 79 for external investment pools. And these are very short term, very secure investments, very low risk investments. And so for those types of investment pools, they're 2a7-like pools, where the fair value is very close to the amortized cost basis. And so GASB is giving them the ability to elect to report their investments and amortize costs. In the event that CalPERS has any external investment pools that measures their investments of amortized costs, you would just follow suit on your financial statements and in your disclosures.

And then finally, another amendment to GASB 67 and 68, and that's GASB 82. They redefined covered payroll. One of the issues that came up during implementation was that plans didn't have total payroll of the employees. They only had what was reported as pensionable payroll. And so they were unable to report the information in accordance with the new definition. So what GASB decided to do was just revert back to the old definition to make the information more readily available.

It also brought up the standards on the actuarial valuations in terms of what constitutes GAAP. And it requires the actuaries follow the actuarial standards of practice when they do their valuations. And any deviation from that would be considered a departure from GAAP.

And finally, the last one is employer-paid member contributions were an issue from employers. And, you know, some of these contributions employers were trying to treat as employer-paid contributions versus member contributions. And so there was a clarification there that however the plan defines member contributions should be reported as such. And so the employer should really be following how the plan defines those contributions. And so those were a couple of clarifications GASB added to 67 and 68.

MR. GREEN: Thank you, Dave. So that completes our presentation. More than happy to address questions that you have.

CHAIRPERSON LIND: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: So on the basic financial statements, you audit that and you express an opinion as to whether it's been reported in accordance with GAAP. On the required supplemental information, that's not really based on the financial records, so you look at it, you see that it's reasonable, but you don't really express an opinion.

MR. GREEN: Yeah. We mentioned that it doesn't contain any information that would conflict with that information contained in the basic financial statements.

COMMITTEE MEMBER JELINCIC: Okay. And then on the other supplemental information, is that audited or not audited?

MR. GREEN: Yeah. What it is, it -- we -- if you were to look in a prior auditor's report, you'll see a paragraph there that basically states that this information comes or is a by-product of the underlying books and records of the entity in which it was subjected to the audit. And as a result what we do, is we say it's fairly -- this information is fairly stated in relation to the basic financial statements.

COMMITTEE MEMBER JELINCIC: Okay. And then, you know, everybody in this room knows I've been concerned about private equity and reporting it and accounting.

MR. GREEN: And I expected a question.

COMMITTEE MEMBER JELINCIC: And probably most of the people who are still hanging around watching it. And I had warned you the question was coming. GASB 67 changed the definition slightly of investment expense. And it's something that CEM whose done our cost analysis has pointed out. But it says that in investment-related costs -- for the definition of an investment expense, "Investment-related costs should be reported as an investment expense if they are separable from, A, investment income, and B, the administrative expenses of the fund".

MR. GREEN: That's correct.

COMMITTEE MEMBER JELINCIC: The management fees, the carry in private equity - and I'll get to the other assets later - really are separable, and yet we're not reporting them. So you may want to explain the definition of separable and we'll --

MR. GREEN: Yeah. No, I --

COMMITTEE MEMBER JELINCIC: -- just so you're set up, you know, the question I'm going to follow up with, if we can't separate it, how do we know that we're actually paying it appropriately? And I will throw those questions to either you or our CFO, whichever is the appropriate person.

MR. GREEN: Well, let me speak to the accounting first, since you referred to GASB 67. And that is correct, you know, the area where you cited was an area that speaks to related -- or investment-related costs. And the change -- the language changed a little bit from the old standard to the new standard. The old standard said that you should identify those costs that are readily separable. Okay. And now it just used separable.

So the way that you look at it to determine if something is separable is is it identifiable? Okay. Can you identify that component of cost? And if you can, the accounting standard says all right we should classify that as an investment expense.

Okay. Now, there are certain investment costs, as you mentioned, that the industry has had problems with, the performance fee or otherwise carried interest at times, and generally, tends to be netted with investment income. And it becomes problematic in terms of meeting the definition of separable, because you can't specifically identify it as collapsed with the net income. And then it's just part of the calculation for the net asset value, which is the appropriate way to account for those, by the way. It's reflected as part of the net asset value, and ultimately rolls through the net and realized gains and losses on the statement of changes and fiduciary net position.

But anyway, to go to your -- the question is in order to be -- to determine if it is separable, it must be identifiable. You must be able to identify it and measure it.

COMMITTEE MEMBER JELINCIC: And so I don't know if you're familiar with the new ILPA template.

MR. GREEN: I have seen it.

COMMITTEE MEMBER JELINCIC: That clear -- once we get everybody on that, clearly it becomes identifiable is -- would you agree?

MR. GREEN: Well, it depends. It depends if all the general partners are participating in it. See, another issue that you have to consider, at least as from an auditor's perspective, is where is it located? You know, currently the general partners typically again will net these amounts and not reflect them on their financial statements -- their audited financial statements.

And so, for me, you know, there's no assurance being given to those numbers. And so, for example, if you were to extract out this number and show it on some template, but yet as an independent auditor I can't go to the general partners audited financial statements to get comfortable that -- with this particular number, then it becomes problematic from an audit perspective. Okay. So you have to consider that as well, what the -- how the general partner is accounting for this.

COMMITTEE MEMBER JELINCIC: Okay. But we -- we have been told that 95 percent of our partners -- our public equity partners are compliant with the previous standard, the 2012 template. And yet, on the, you know, capital call and distribution template, there is a specific line for management fees, the gross calculation, the waiver amount, fee offset, and the amount of money they're calling.

MR. GREEN: Um-hmm.

COMMITTEE MEMBER JELINCIC: So since we have that for all of those distributions, wouldn't it be separable and identifiable?

MR. GREEN: It would outside of the audited financial statements of the general partner and certainly outside of the internal controls and processes here at CalPERS. So at this point, you know, for us, the haven't been -- I have not seen anything within the general partner's audited financial statements that would indicate that it is readily separable, or separable.

COMMITTEE MEMBER JELINCIC: When you do your audit, I would encourage you to look at the capital call and distribution templates, because that's what we pay them

MR. GREEN: But on their audited financial statements, it does not show -- I mean, they do net those with the income, correct?

COMMITTEE MEMBER JELINCIC: So --

CHAIRPERSON LIND: Excuse me, J.J., could you, within 5 minutes, try to wrap-up this line of questioning.

COMMITTEE MEMBER JELINCIC: I'm going to try.

CHAIRPERSON LIND: Because we're really just trying to accept the plan, right, not totally investigate the private equity piece.

COMMITTEE MEMBER JELINCIC: So when you look at those expenses, you look at the GP's financial statement, you don't look at the documents that we use to generate the money we're sending out?

MR. GREEN: No, when we -- at this point in time, given the accounting that's done at CalPERS, what we do is we'll look at the general partner's financial statements predominantly to get comfortable with the calculation of the net asset value for fair value testing.

COMMITTEE MEMBER JELINCIC: Okay. And X the --

MR. GREEN: Which, by the way, is the correct way for those type of investments to be accounted for. So I want to make it clear that CalPERS, in the -- with respect to private equity, is accounting correctly for those investments at net asset value, which does include the netting of performance fees with income. I mean, that is -- now, I recognize amongst industry, it's a conversation to be able to more specifically identify them, thus allowing them to become separable for benchmarking purposes. But I just want to make clear that CalPERS is following GAAP at this point in time.

COMMITTEE MEMBER JELINCIC: Well, I would encourage you to look at particularly paragraph 27.

MR. GREEN: Okay.

COMMITTEE MEMBER JELINCIC: Okay. But the other question -- outside of private equity, we've got a whole list here of investment expenses to, you know, the various outside managers X private equity, that runs up to a billion dollars. And yet, we don't have any investment expenses in the financial statement, so I would just encourage you to look at that.

MR. GREEN: Okay.

CHAIRPERSON LIND: Okay. Any other questions?

Can we have --

COMMITTEE MEMBER MATHUR: Move approval.

VICE CHAIRPERSON HOLLINGER: Second.

CHAIRPERSON LIND: Okay. That was a second. Okay. Motion by Mathur, second by Hollinger.

Anything on the question?
All in favor say aye?
(Ayes.)
CHAIRPERSON LIND: Any opposed?
Motion carries. Thank you, Rick.
MR. GREEN: Thank you.
CHAIRPERSON LIND: Look forward to working with you. Okay. Young, you're going to talk about the 2016-17 Office of Audit Services plan.
ASSISTANT CHIEF AUDITOR HAMILTON: Yes. Good afternoon, Mr. Chairman.
CHAIRPERSON LIND: Your microphone, please.
ASSISTANT CHIEF AUDITOR HAMILTON: Good afternoon, Mr. Chair and members of the Committee. Young Hamilton, CalPERS staff.
Agenda Item 7b is an action item. Staff is requesting Risk and Audit Committee to approve Office of Audit Services proposed audit plan for fiscal year 2016-17. The International Standards for the Professional Practice of Internal Auditing requires the Chief Auditor to establish a risk-based audit plan to determine the priorities of the internal audit activity consistent with the organization's goals.
(Thereupon an overhead presentation was presented as follows.)

ASSISTANT CHIEF AUDITOR HAMILTON: The office's charter requires the Chief Auditor to submit at least annually an internal audit plan to the Committee and the Board for review and approval. In developing the risk-based audit plan, Office first established an audit universe. The audit universe is a list of all possible audits that could be performed for the organization.

The office performed a risk assessment to prioritize the auditable activities for the fiscal year. Office has to 2 major audit programs, internal audit and public agency audit. To perform the risk assessment for internal audit, office took into consideration the CalPERS strategic goals and objectives, changes in laws and regulations, significance of operations to financial reporting, complexity of processes, sensitivity of information, and prior audit and findings. Office also considered input from the Board, executive management, and senior management.

For the public agency audit, office performed a risk assessment to identify high risk compliance areas for review. Using data analytics, office will determine the high-risk agencies for these compliance areas to review in fiscal year 2016-17. Office's goal is to identify a minimum of 60 agencies for each compliance activity selected for review.

In fiscal year 2016-17, full compliance activities were identified for review. Office plans to increase the number of activities reviewed in future years. This presents a change to the public agency audits in order to bring efficiencies to the audit process and increase the utilization of business intelligence.

Office also provides assistance to management, so we allocated resources toward responding to special requests and consulting projects. Additionally, office coordinates contracted external audit and reviews, including the financial statement audit, Governmental Accounting Standards Board Statement number 68 audit, real asset and other specialty investment audits, and actuarial valuation and certification services.

In fiscal year 2016-17, office will be performing technical proposal evaluation for the Board's independent financial statement auditor and request for the Board's selection of the finalists to appear before the Risk and Audit Committee in November for an oral interview.

The RFP was issued in May 2016 to initiate a competitive bidding process to seek an external audit firm for a new contract beginning January 1st, 2017. To remain flexible and responsive to the changes in the organization's business risk, operations, systems, and controls. We will review and update the fiscal year

2016-17's audit plan as necessary. Proposed modifications to the audit plan will be presented to the Committee as needed during the year.

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

CHAIRPERSON LIND: Thank you, Young.

I don't see any.

May I have a motion to approve the plan.

VICE CHAIRPERSON HOLLINGER: Motion to approve.

COMMITTEE MEMBER MATHUR: Second.

CHAIRPERSON LIND: Motion by Hollinger, second by Mathur.

All in favor say aye?

(Ayes.)

CHAIRPERSON LIND: Any opposed?

That motion carries. Thank you.

That's it for the action items. We're now on to the information agenda items. And first is 8a, the Audit Resolution Policy Revision.

ASSISTANT CHIEF AUDITOR HAMILTON: Okay. Good afternoon again, Mr. Chair, members of the Committee. Young Hamilton, CalPERS staff.

Agenda Item 8a is an information item. In April 2016 Office of Audit Services presented the revisions made to the existing audit resolution policy. We have incorporated changes proposed by the Risk and Audit Committee. This policy is consistent with the International Standards for the Professional Practice of Internal Auditing, which requires the Chief Auditor to establish a follow-up process to monitor the disposition of audit findings, and ensure that many management actions have been effectively implemented or that executive staff has accepted the risk of not taking action.

The Audit Resolution Policy is updated periodically and was last updated in November 2013. The key revisions are:

The acceptance of risk sections for both internal audits and public agency reviews have been revised to clarify the Audit Division may accept risk of not implementing corrective action, unless it violates applicable laws and regulations. The term "Deputy" was clarified as meaning Deputy Executive Officer.

Other minor edits were made to add clarity and ensure that consistent language was used throughout the policy. I would like to bring to your attention that under public agency reviews the Acceptance of Risk Section. We will further modify to state, "Unless it violates the public agency's retirement laws or applicable regulations". In addition, we will make sure that usage of "shall" and "will" is proper and consistent throughout the policy.

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

CHAIRPERSON LIND: Ms. Mathur.

COMMITTEE MEMBER MATHUR: Well, I just wanted to say thank you for the modifications. I think they do clarify the policy. I recognize that it has now been moved from being an action item to being an information item, that it doesn't require the Committee's approval. So I just wanted to thank you for those changes.

ASSISTANT CHIEF AUDITOR HAMILTON: Right. Thank you.

CHAIRPERSON LIND: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: And thank you for listening to my comments on the briefing.

On page 3 of 8, 99 of the iPad, "it" is still -- the antecedent to "it" in the second line of acceptance of risk is still not clear. And that was it.

Thank you.

CHAIRPERSON LIND: Okay. Thank you, everybody. Thank you, Young, for the report.

ASSISTANT CHIEF AUDITOR HAMILTON: Yes.

CHAIRPERSON LIND: We're going to move on to 9a, the Semi-annual Enterprise Risk Reports.

CHIEF FINANCIAL OFFICER EASON: So while our

Chief Risk Officer Joins us, I'll just mention that this is an update to our current state of the CalPERS Enterprise Risk Management risk reporting efforts. And Forrest and his staff have worked with the CalPERS organization to review the 30 enterprise risks that you would have originally seen by this Committee in November 2015.

And the intent was that we were going to go back and refine those risks. That's what you're seeing in attachment 3 of this item, the risk refinement map. We're looking for review and feedback from the Committee. But as part of this transformational effort, we'll -- we will bring this -- the risk dashboard and all the reports back in November with the refined risks. So with that, I'll just let Forrest take over from here.

CHIEF RISK OFFICER GRIMES: Thank you, Cheryl. Again, Forrest Grimes, CalPERS staff.

This item really describes the transition to the revised risk management framework that Cheryl alluded to. Basically, we will be reducing the number of enterprise risks from the prior 30 risks to 11 more focused risks that appear in your attachment 1.

Also, we're -- we will incorporate the risk profile sheet for each risk. And there's a sample included which is for the compliance risk and that's included as attachment 2. We're excited about this particular tool, because really it does a lot of things that we think are very positive.

The risk profile sheets show the relationship to the business objective. They list the risk drivers, shows the current mitigations in place, reveals the residual risk - and this work will be completed in Q1 and Q2 of this fiscal year as we move forward - shows the future mitigation planned for the near term. And I think probably one of the most interesting things, and as we'd touched on previously, this tool provides a platform for more focused risk appetite development and discussion, which I'm hoping will kind of help the Committee to engage on that topic.

And as Cheryl mentioned, this will produce a new risk dashboard in November of 2016. I do want to point out that there is an error in the executive summary of the memo which states 2017. Truly that was my mistake and I apologize for that. But truly, we're targeting November 2016 for the new risk dashboard.

And with that, I'm going to ask if you have any questions.

CHAIRPERSON LIND: Ms. Mathur.

COMMITTEE MEMBER MATHUR: Yeah. Well, I think it's appropriate and practical to reduce down the key risks from 30 to 11. Maybe it should even be fewer, but I think given the complexity of the organization, maybe 11 is as far as we can go. With respect to the enterprise risk profile, I think it will be a very useful tool. And I appreciate the thought behind it, and that it will help us to sort of in one page drill down on a particular risk. And I expect -- you and I talked about this on the phone that once we have established risk appetites and tolerances, they will be added to the profiles on a going-forward basis.

CHIEF RISK OFFICER GRIMES: Yes, that's accurate.

COMMITTEE MEMBER MATHUR: Great. And will there be some way that this is -- I see that it's linked to the business objective, but will there be someway that these are also linked to the strategic plan once that comes on-line.

CHIEF RISK OFFICER GRIMES: Yes. We're actually going to be performing -- that was kind of in the presentation that I didn't quite cover due to the interests of time. But basically, we're going to be performing a gap analysis next with our strategic planning group, and we will tie these risks to the appropriate strategic plan and make sure that there's -- that there's alignment and that we haven't really missed something is the purpose of that exercise initially.

COMMITTEE MEMBER MATHUR: Terrific. Thank you.

CHAIRPERSON LIND: Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.

In the interests of time, I don't want to go through in detail, but I do want to raise 2 issues, and we talked about it earlier. There's 2 of these that I'm not sure belong on the list. When you compare each of these and the ramifications of failure, it raises to a very high level.

So the two that I would say that bears some discussion later is the inability to offer high quality accessible health care at a competitive price. So the way I interpret that, that means that, especially for the local agencies, they don't see it as a competitive product. I don't view that as the same kind of risk like inability to deliver benefits. I just think it's at a totally different scale in terms of the issue.

The other one is the next to the last one. "Inability to meet CalPERS strategic and business objectives in a cost effective and efficient manner". You know, I just again don't see that as a systemic risk issue. It's a qualitative issue, and certainly one we should pay attention to, but I'm not sure it bears being on the list with the others.

So I'll just raise that. It doesn't have to be resolved today, but that would be my concerns.

CHIEF RISK OFFICER GRIMES: Yeah. Thank you for your comments.

CHAIRPERSON LIND: Mr. Jelincic.

COMMITTEE MEMBER JELINCIC: And on the risk statements, you know, as we talked on the briefing, I think some of them are misstated, although the intent is right. And then on the enterprise risk profile, you know, in terms of risk drivers, it's not the knowledge of applicable laws and rules it's the lack of. And that shows up a few times.

Thank you.

CHIEF RISK OFFICER GRIMES: Thank you for your comments too, Mr. Jelincic.

CHAIRPERSON LIND: Mr. Lofaso.

ACTING COMMITTEE MEMBER LOFASO: Thank you, Mr. Chairman. Just a quick question -- or statement. My impression was last fall a lot of the different committees were reviewing the particular risk domains in their area, and that was an opportunity, in some of the committees, to drill down. And I remember, and I think it was in Pension and Health Benefits, there were 2 risk domains. And one was sort of some -- what I thought was objective data. It was rates of processing certain benefits, and another risk domain the data source was more sort of survey data, which perhaps it's not fair for me to call that subjective, but maybe not as objective.

As we go forward, I'm wondering if you might offer us a little insight as you refine the -- I don't know if we're still calling them risk domains as we go from -- sorry, is it 30 or 20? The sources of data we're using to determine what the risks are as we categorize them, I just offer that feedback.

CHIEF RISK OFFICER GRIMES: Certainly. And I think the integrated assurance interviews are still really in place, and that's one of the major sources of where this information is coming from that would have produced what you spoke to.

ACTING COMMITTEE MEMBER LOFASO: Thank you.

CHAIRPERSON LIND: Okay. I don't see any other questions.

Forrest, I just wanted to say it's unfortunate that we're rolling through this at 6:00 o'clock at night and you had to truncate your presentation. This is obviously very important work and you've got us off to a great start with this tool that you've laid out. And so we're looking forward to spending more time with you as we go forward on the work.

CHIEF RISK OFFICER GRIMES: Thank you. And I look forward to that too. And I just wanted to thank the staff and many of who are still here with me this evening for their hard work.

CHAIRPERSON LIND: Yeah. Thanks to all of you for hanging in with us.

All right. I don't see any requests for public comment. And I skipped over, Cheryl, do you have any sort of Summary of Committee Direction?

CHIEF FINANCIAL OFFICER EASON: No. I think I've just made a couple of notes in terms of follow up just on some of the items that I think we'd want to take back as feedback. And those will be reflected when we bring those items back next time.

CHAIRPERSON LIND: Okay. So we are going to adjourn to closed session.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Risk and Audit Committee open session meeting adjourned at 5:54 p.m.)

C E R T I F I C A T E O F R E P O R T E R

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 and Audit Committee open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California, 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 20th day of June, 2016.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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