

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

TUESDAY, SEPTEMBER 20, 2016

3:45 P.M.

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

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. Henry Jones

STAFF:

Mr. Doug Hoffner, Interim Chief Executive Officer

Ms. Cheryl Eason, Chief Financial Officer

Mr. Matthew Jacobs, General Counsel

Mr. Forrest Grimes, Chief Risk Officer

Ms. Carrie Lewis, Committee Secretary

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1 P R O C E E D I N G S

2 CHAIRPERSON LIND: Good afternoon, everyone.

3 We're going to call to order the meeting of the Risk and  
4 audit Committee.

5 May we take the roll, please?

6 COMMITTEE SECRETARY LEWIS: Ron Lind?

7 CHAIRPERSON LIND: Here.

8 COMMITTEE SECRETARY LEWIS: Dana Hollinger?

9 VICE CHAIRPERSON HOLLINGER: Here.

10 COMMITTEE SECRETARY LEWIS: J.J. Jelincic?

11 COMMITTEE MEMBER JELINCIC: Here.

12 COMMITTEE SECRETARY LEWIS: Priya Mathur?

13 COMMITTEE MEMBER MATHUR: Here.

14 COMMITTEE SECRETARY LEWIS: Bill Slaton?

15 COMMITTEE MEMBER SLATON: Here.

16 COMMITTEE SECRETARY LEWIS: Theresa Taylor?

17 CHAIRPERSON LIND: Excused.

18 COMMITTEE SECRETARY LEWIS: Alan Lofaso for Betty  
19 Yee?

20 ACTING COMMITTEE MEMBER LOFASO: Good afternoon.

21 CHAIRPERSON LIND: Thank you.

22 We are next on to the Executive Report, Cheryl  
23 Eason.

24 CHIEF FINANCIAL OFFICER EASON: Thank you. Good  
25 afternoon, Mr. Chair and Committee members. Cheryl Eason,

1 CalPERS staff.

2 Today's action item for the Committee is the  
3 finalist selection of the independent financial statement  
4 auditor presented by our Chief Actuary -- Auditor, Beliz  
5 Chappuie. Our current auditor's contract will expire with  
6 the conclusion of the fiscal year 2015-16 financial  
7 statement audit, which is currently underway.

8 On May 11th of this year, CalPERS released a  
9 request for proposal for the independent financial  
10 statement auditor and received 4 proposals. Three of the  
11 4 proposals passed the technical and fee proposal  
12 evaluations.

13 Today you will be asked to select finalists from  
14 those proposals. Those finalists will then appear in  
15 front of the Committee in November for an oral interview.

16 Item 6a is a risk profile review that outlines  
17 the summary of the top 10 risks being presented to each of  
18 the Board Committees, each with a profile of the specific  
19 risk assigned to the respective committee. The compliance  
20 risk profile is being provided to the Risk and Audit  
21 Committee for review as this represents your direct  
22 oversight for compliance risk.

23 The next Risk and Audit Committee meeting is  
24 scheduled for November 15th, 2016, and includes the  
25 semi-annual enterprise risk reports, including the updated

1 risk dashboard, the third-party valuation and  
2 certification of the contracting public agency plans as of  
3 June 30th, 2014, which provides independent assurance of  
4 the valuation reports completed by the Actuarial Office;  
5 the review of the independent auditor's financial letter;  
6 the annual review of the independent auditor's report for  
7 the financial statements ending June 30th, 2016; and as  
8 mentioned earlier, the finalist interviews for the  
9 independent financial statement auditor.

10 And this concludes my report, Mr. Chair. And I  
11 would be happy to take any questions.

12 CHAIRPERSON LIND: We have one from Mr. Jelincic.

13 COMMITTEE MEMBER JELINCIC: The calendar for the  
14 year shows that we get the independent auditor's report in  
15 November, but the draft agenda doesn't show that, unless  
16 I'm missing something?

17 CHIEF FINANCIAL OFFICER EASON: Oh. All right.  
18 It should. We will correct that.

19 COMMITTEE MEMBER JELINCIC: Okay. And that  
20 explains why you didn't tell us about it.

21 CHAIRPERSON LIND: All right. We're on to action  
22 consent. Can I have a motion to approve the minutes of  
23 June 13th.

24 VICE CHAIRPERSON HOLLINGER: Approve.

25 COMMITTEE MEMBER MATHUR: Second.

1           CHAIRPERSON LIND: A motion by Hollinger, second  
2 by Mathur.

3           All in favor?

4           (Ayes.)

5           CHAIRPERSON LIND: Any opposed?

6           Motion carries.

7           We're on to information consent.

8           It looks like I have one speaker on this.

9           J.J.

10          COMMITTEE MEMBER JELINCIC: Oh, I had made the  
11 point earlier, that the annual calendar in the draft  
12 agenda didn't lineup, but they're going to fix that.

13          CHAIRPERSON LIND: Oh, okay. You made that point  
14 before I got to that item, in other words.

15          So we are on to Action Agenda Items, number 5,  
16 the Audit. Beliz Chappuie, please.

17          CHIEF AUDITOR CHAPPUIE: Good afternoon, Mr.  
18 Chair, members of the Committee. Beliz Chappuie, CalPERS  
19 staff.

20          Agenda Item 5a is an action item related to  
21 selection of finalists for the independent financial  
22 statement auditor. Staff recommend the firms who have  
23 passed the technical proposal evaluation to the Board for  
24 selection of finalists to appear before the Risk and Audit  
25 Committee in November 2016 for an oral interview.

1           On November 17, 2015, the Board approved the  
2 release of a Request for Proposal to initiate a  
3 competitive selection process to engage the services of a  
4 qualified audit firm to perform audits of CalPERS  
5 financial statements for fiscal years 2016-17 through  
6 2021.

7           On May 11, 2016, CalPERS released RFP and  
8 received 4 proposals. A team of CalPERS staff performed  
9 the technical proposal evaluations. Two Risk and Audit  
10 Committee members were advisors during this process.  
11 Three of the 4 firms passed the preliminary review and the  
12 technical proposal evaluation. Then the fee proposal  
13 evaluations were performed and the firms were ranked based  
14 on the fee scores they received.

15           The applicable incentive points were also  
16 included in the rankings for consideration during the  
17 interviews.

18           To summarize, Macias, Gini & O'Connell received  
19 300 points, Crow Horwath received 140 points, and Grant  
20 Thornton received 122 points.

21           Finally, staff performed background and reference  
22 checks and all finalists rated as satisfactory. The firms  
23 that passed the technical proposal evaluation and selected  
24 as finalists by the Board are eligible to move on to the  
25 interview phase.



1           The next step in the RFP process, the selected  
2 finalists will be invited to appear before the Risk and  
3 Audit Committee in November. Each firm will have 30  
4 minutes before the Risk and Audit Committee, which will  
5 consist of a 10-minute presentation and a 20-minute  
6 question and answer session.

7           The interviews will be evaluated using a  
8 consensus scoring methodology. The Risk and Audit  
9 Committee will determine a score as a group for each  
10 finalist and motion the interview score with a maximum of  
11 700 points. Each proposer's interview score will be  
12 combined with a preliminary score for its total score.  
13 Proposals will be ranked according to their total score  
14 from highest to lowest.

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

17           CHAIRPERSON LIND: Thank you.

18           So our task today is to determine how many, and  
19 which we send to the next process in November, whether  
20 it's 2 or 3, and if it's 2, which 2, correct?

21           CHIEF AUDITOR CHAPPUIE: Yes.

22           CHAIRPERSON LIND: Mr. Jelincic.

23           COMMITTEE MEMBER JELINCIC: I will move that we  
24 interview all 3 of them. While there's a great range in  
25 the preliminary scores, the technical scores, although

1 they didn't carry forward, but really measured the ability  
2 of the firms to do it, were actually very competitive, and  
3 very close. So I would encourage us to interview all 3.

4 COMMITTEE MEMBER MATHUR: Second.

5 CHAIRPERSON LIND: Okay. We've got a motion by  
6 Jelincic, the second by Mathur to interview all 3.

7 Is there any discussion?

8 Mr. Lofaso

9 ACTING COMMITTEE MEMBER LOFASO: Thank you, Mr.  
10 Chairman.

11 I concur with the mover. I just wanted comment  
12 having -- and I forget what we called it, having  
13 participated in the staff evaluation, I thought there was  
14 lots of variation on both the staffing levels and the  
15 composition of the staffing and the proposals. And I  
16 think it would benefit the members of the Committee to get  
17 to see all 3 of those, and the 3 finalists that Mr.  
18 Jelincic is suggesting we interview.

19 CHAIRPERSON LIND: Great. I do want to thank Mr.  
20 Lofaso and Mr. Jelincic for sitting in on that process.  
21 It's always helpful to have Board members observe and  
22 bring us your thoughts.

23 Mr. Jelincic.

24 COMMITTEE MEMBER JELINCIC: Yeah. In my  
25 briefing, just so people are aware of it, I encouraged

1 staff to bring us the technical scores for -- even though  
2 they weren't being -- they weren't part of the scoring, so  
3 that the staff -- or so that the Board as a whole had an  
4 idea of where the technicals were.

5 CHAIRPERSON LIND: Thank you.

6 Okay. I see no one else wishing to speak on  
7 this. We have a motion before us.

8 All in favor say aye?

9 (Ayes.)

10 CHAIRPERSON LIND: Any opposed?

11 That motion carries.

12 We're now on to information agenda items, Item  
13 number 6a, the Risk Profile Review. That would be Ms.  
14 Eason and Mr. Grimes.

15 CHIEF FINANCIAL OFFICER EASON: Thank you.  
16 Cheryl Eason, CalPERS staff.

17 (Thereupon an overhead presentation was  
18 Presented as follows.)

19 CHIEF FINANCIAL OFFICER EASON: And Chief Risk  
20 Officer, Forrest Grimes, will be joining me.

21 The agenda Item 6a is being presented today  
22 really for two purposes. First, we wanted to bring to the  
23 attention of the Committee the 10 risk statements assigned  
24 to each Board committee with their oversight for risk.  
25 And secondly, the Committee's -- this Committee's

1 compliance risk profile. It outlines the risk statement,  
2 risk drivers, associated mitigations and controls  
3 currently in place, as well as any future mitigations  
4 planned to continue to enhance and strengthen the risk  
5 mitigation activities around this risk statement.

6 And I would just ask if Forrest has -- Grimes,  
7 Chief Risk Officer for CalPERS to comment on any specific  
8 compliance risk profile. And, as well, just outline the  
9 process for our risk reviews leading to our November risk  
10 reports and the risk dashboard that you will receive as a  
11 committee in November.

12 CHIEF RISK OFFICER GRIMES: Thank you, Cheryl.

13 Forrest Grimes, CalPERS staff. What I would like  
14 to do is to engage you in any conversation or comments or  
15 questions that you may have regarding the risk framework  
16 in general that you've heard about in other Committee  
17 meetings this week, as well as the Compliance Risk Profile  
18 specifically which this committee does have delegated  
19 authority to approve and oversee.

20 So with that, Mr. Chair, I would seek comments  
21 and questions.

22 CHAIRPERSON LIND: Mr. Jelincic.

23 COMMITTEE MEMBER JELINCIC: On the future  
24 mitigations, Risk 2, unethical behavior by staff and  
25 executive. I noticed we have no planned mitigations

1 there. Is that a statement that we've got a complete  
2 handle on it and -- or what does it really suggest?

3 CHIEF RISK OFFICER GRIMES: Yes, Mr. Jelincic, I  
4 think that is a good question. And just so you understand  
5 the intent of that, future mitigations, we have actually  
6 really concluded that those should be limited to those  
7 things that would appear on a business plan. So these are  
8 just not nice-to-haves. These would be planned for.

9 And so I think your comment is exactly accurate,  
10 and I would propose that we would omit that number 2 item,  
11 when we bring it back to you in November.

12 COMMITTEE MEMBER JELINCIC: But on the current --  
13 page earlier, we have a number of things under that same  
14 risk. So obviously, there are some mitigations and  
15 controls.

16 CHIEF RISK OFFICER GRIMES: Yes, and I -- do you  
17 mind if I --

18 COMMITTEE MEMBER JELINCIC: No. I'm trying to  
19 elicit a --

20 CHIEF RISK OFFICER GRIMES: Sure. Truly, I think  
21 that was an oversight by staff. And really, we kind of  
22 tried to answer, in this particular profile sheet, have a  
23 response for each particular driver that appeared on the  
24 prior page. The other risk profiles that you viewed  
25 earlier in the week did not really have a response for

1 every particular risk driver. So this was, I believe,  
2 just an oversight. But I do think that it kind of gives a  
3 good segue into a conversation on what I would like to do  
4 ultimately, and what staff would like to do ultimately,  
5 which we hope to kick-off in January, which would be to  
6 discuss risk appetite and tolerances with the Board.

7 And, in essence, that would perhaps -- the way  
8 that this was really intended to be used is, if you, the  
9 Board, thought that we were not mitigating a risk  
10 appropriately, that would give you an opportunity to  
11 suggest some future mitigations. So that's really a tool  
12 that we're intending to use moving forward to further  
13 advance controlling risk within the organization.

14 COMMITTEE MEMBER JELINCIC: Thank you.

15 CHAIRPERSON LIND: All right. I don't see anyone  
16 else wishing to speak, so we'll hear more about this at  
17 our November meeting. Thank you for your work on it.

18 CHIEF RISK OFFICER GRIMES: Thank you.

19 CHAIRPERSON LIND: And that brings us to summary  
20 of Committee direction. Cheryl, I don't have any, do you?

21 CHIEF FINANCIAL OFFICER EASON: No, I don't.

22 CHAIRPERSON LIND: Okay. We're easy today.

23 COMMITTEE MEMBER JELINCIC: They have to fix the  
24 agenda.

25 CHAIRPERSON LIND: Oh, yeah, fix the agenda.

1 CHIEF FINANCIAL OFFICER EASON: Yes. Thank you.

2 CHAIRPERSON LIND: All right. I don't show  
3 anyone wishing -- from the public wishing to speak. So  
4 this meeting is adjourned.

5 (Thereupon the California Public Employees'  
6 Retirement System, Board of Administration,  
7 Risk and Audit Committee open session  
8 meeting adjourned at 3:58 p.m.)

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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 27th day of September, 2016.

JAMES F. PETERS, CSR  
Certified Shorthand Reporter  
License Number 10063