

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 19, 2017

3:31 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:

Ms. Dana Hollinger, Chairperson

Mr. Ron Lind, Vice Chairperson

Mr. Rob Feckner

Mr. Richard Gillihan

Ms. Priya Mathur

Mr. Bill Slaton

Ms. Betty Yee, represented by Mr. Alan Lofaso

BOARD MEMBERS:

Mr. Michael Bilbrey

Mr. Henry Jones, Vice President

Mr. John Chiang, represented by Ms. Jeree Glasser-Hedrick

Mr. J.J. Jelincic

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Marlene Timberlake-D'Adamo, Interim Chief Financial Officer

Ms. Beliz Chappuie, Chief Auditor

Ms. Carrie Lewis, Committee Secretary

Ms. Kami Niebank, Deputy 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 Driscoll, Conduent HR Consulting

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

2 CHAIRPERSON HOLLINGER: The Risk and Audit
3 Committee meeting is called to order. First item on the
4 agenda is roll call.

5 COMMITTEE SECRETARY LEWIS: Dana Hollinger?

6 CHAIRPERSON HOLLINGER: Here.

7 COMMITTEE SECRETARY LEWIS: Ron Lind?

8 CHAIRPERSON HOLLINGER: I believe he's here.

9 COMMITTEE SECRETARY LEWIS: Rob Feckner?

10 COMMITTEE MEMBER FECKNER: Good afternoon.

11 COMMITTEE SECRETARY LEWIS: Richard Gillihan?

12 COMMITTEE MEMBER GILLIHAN: Here.

13 COMMITTEE SECRETARY LEWIS: Priya Mathur?

14 COMMITTEE MEMBER MATHUR: Here.

15 COMMITTEE SECRETARY LEWIS: Bill Slaton?

16 Alan Lofaso for Betty Yee?

17 ACTING COMMITTEE MEMBER LOFASO: Here.

18 CHAIRPERSON HOLLINGER: Okay. First item on the
19 agenda is the -- or the second item is the Executive
20 Report.

21 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

22 D'ADAMO: Thank you. Good afternoon, Madam Chair and Vice
23 Chair, members of the Committee and the Board. Marlene
24 Timberlake-D'Adamo, CalPERS team member.

25 I would like to update you first on a revision to

1 a Consent Item for Item 4f. We actually -- in the -- in
2 the document you actually have a handout, because there
3 was a percent that was left off the pie chart. And so
4 you'll see that we've updated that and provided you with
5 that information. So I just wanted to let you know that.
6 The topic is about the ethics complaints received.

7 CHAIRPERSON HOLLINGER: Got it.

8 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE
9 D'ADAMO: Today's RAC agenda consists of only two
10 information items. Beliz Chappuie and Conduent HR
11 consulting, the CalPERS third-party actuarial firm, will
12 present the independent reviews of the actuarial
13 valuations for the Judges' Retirement System, Judges'
14 Retirement System II, Legislators' Retirement System, and
15 the 1959 Survivor Benefit Program as of June 30, 2016.

16 You will also hear the fiscal year 2016-17 annual
17 compliance report document. That document is CalPERS most
18 significant compliance related improvements and
19 accomplishments for the year.

20 The next Risk and Audit Committee meeting is
21 scheduled for November 13th, 2017 and includes the
22 independent auditor's report for fiscal year 2016-17, a
23 review of the independent auditor's management letters,
24 and the Enterprise Risk Management framework review.

25 Thank you, Madam Chair. This concludes my

1 report, and I would be happy to take questions.

2 CHAIRPERSON HOLLINGER: Thank you very much.
3 Please note for the record that Ron Lind and Bill Slaton
4 are here. Are there any questions?

5 Okay. Seeing no questions.

6 The next item on the agenda is Item 3. It's an
7 action consent item. Do I have a motion for approval of
8 the minutes?

9 VICE CHAIRPERSON LIND: Move approval.

10 COMMITTEE MEMBER MATHUR: Second.

11 CHAIRPERSON HOLLINGER: Okay. All in favor of
12 approval of the minutes from the 2017 Risk and Audit say
13 aye?

14 (Ayes.)

15 CHAIRPERSON HOLLINGER: Okay.

16 Okay. Next item, is Item 4. It's a consent
17 item. And I believe --

18 GENERAL COUNSEL JACOBS: Ms. Hollinger?

19 CHAIRPERSON HOLLINGER: What?

20 GENERAL COUNSEL JACOBS: I'm sorry to interrupt,
21 but you do have to ask if there were any nay votes.

22 CHAIRPERSON HOLLINGER: Oh. Were there any nay
23 votes?

24 No. Okay. Thank you. Appreciate that.

25 Okay. The next item on Item 4 are consent items.

1 I guess the one item that I have a request to be pulled is
2 4f. But Mr. Jelincic, does getting the handout change
3 anything?

4 BOARD MEMBER JELINCIC: No.

5 CHAIRPERSON HOLLINGER: Okay. So with the
6 exception of 4f, which I guess we'll have a discussion.
7 Mr. Jelincic.

8 BOARD MEMBER JELINCIC: Yeah, 4f which is the
9 quarterly compliance report. At the bottom of page one,
10 it says that at the end of the fourth quarter of 2016-17,
11 there were 66 past due consultant filers, and 27 that were
12 filed. The 2016 annual Form 700 filing season ended April
13 3rd, 2017. At the end of the fourth quarter, 31
14 consultants were past due for their 2016 statement. The
15 remaining six past due filers were from 2015 filing
16 season.

17 So if they have not filed their Form 700, I would
18 assume that they are in breach of the contract. And my
19 question is do they still work for us?

20 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE
21 D'ADAMO: So the one thing that I will note about this --
22 what we're doing here is that we've undertaken a large
23 project this year to educate our consultants around the
24 Form 700 filing process, and the requirements that exist.

25 So we have been continuing to educate all of our

1 consultants around the form filing -- form 700 filing
2 process, what's due, when it's due, and for whom it is
3 due. So to answer your specific question about whether
4 each of the five still works with us, I'd have to get back
5 to you on that. But I understand what you're saying
6 around, you know, the fact that it could be problematic
7 the fact that they haven't. What I'm -- what I will tell
8 you is that beginning at the end of '16 and through '17,
9 we've undertaken a large project to educate those
10 consultant filers on the Form 700 filing process, and that
11 we continue to get them -- bring them into compliance as
12 we work through this project.

13 BOARD MEMBER JELINCIC: And they all signed
14 contracts that said they will file these Form 700s. And
15 the message has been we don't really care.

16 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE
17 D'ADAMO: I don't know that that's necessarily the
18 message. I think what we do is we work with them to make
19 them understand that if someone comes off of a project or
20 comes on the project, you know, there are different things
21 that have to happen. And so we're working with them to
22 make sure that everyone who's supposed to file is filing.
23 And I get your point about filing timely.

24 BOARD MEMBER JELINCIC: Yeah, I mean, if we send
25 them all an email that says if it's not filed by next

1 Friday, you're contract is voided, I bet there -- most of
2 them get filed by next Friday.

3 Thank you.

4 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

5 D'ADAMO: You're welcome.

6 CHAIRPERSON HOLLINGER: Mr. Slaton.

7 COMMITTEE MEMBER SLATON: Thank you, Madam Chair.

8 Just on the same point, do our contracts contain
9 a clause that failure to file this is grounds for contract
10 termination?

11 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

12 D'ADAMO: I don't know. I not sure for all have them. I
13 mean, that's a general --

14 COMMITTEE MEMBER SLATON: Or do we consider it to
15 be grounds --

16 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

17 D'ADAMO: -- a pretty broad statement.

18 COMMITTEE MEMBER SLATON: Or do we consider it to
19 be grounds for termination? I mean, you know --

20 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

21 D'ADAMO: Well, I think what I would say before Matt comes
22 up -- Matt's like, please. What I would say is that the
23 project that we have undertaken has been a very large
24 project, that where we have really brought in the
25 consultants and talked to them individually one to one and

1 gone through what the requirements are and how it relates
2 to them.

3 And so what I will say is that there probably are
4 not many, or any, that, you know, are just, you know, that
5 we're saying that we're not going to get them to file. I
6 think what we're trying to do is making sure that we're
7 bringing them into compliance.

8 COMMITTEE MEMBER SLATON: Right. I guess what
9 I'm saying is on a go-forward basis, the process of
10 contracting with an outside company should contain the
11 instructions, if, in fact, this our requirement versus,
12 you know, before the Controller can cut a check to them,
13 they have to be -- I mean, I don't know what the rules
14 are, but it appears to me that maybe we're not
15 communicating a standard set of rules as to who and when
16 has to file as part of the contract process. But I --
17 that's what -- my question.

18 DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK: Kami
19 Niebank, CalPERS staff. So the contract does have a
20 provision that we may determine that a vendor is a Form
21 700 filer. It doesn't necessarily outline the process or
22 the FPPC's process for if they're delinquent what exactly
23 would happen.

24 One of our initiatives in Compliance this year is
25 to work really closely with OSSD to really try to get in

1 front of the contract going out, because people have 30
2 days from the date that they sign the contract to then
3 actually fill out their form 700. So we're really working
4 to make sure that the paperwork, when they'll all happy
5 and signing the contract, that the paperwork around who
6 would be a filer, is in that paperwork with the contract,
7 so that we can get that back and get the right person the
8 form at the right time --

9 COMMITTEE MEMBER SLATON: Right.

10 DEPUTY CHIEF COMPLIANCE OFFICER NIEBANK:

11 -- because maybe for now we might have -- you
12 know, the CFO or someone who's responsible for that
13 contract, we may not have the actual person who was
14 perform the work that would be deemed the filer. So
15 working through the process of that has what's been a
16 little bit slow. We didn't have a real tight process, but
17 we have been working with, like I said, OSSD to really
18 tighten that process up.

19 COMMITTEE MEMBER SLATON: Okay. That answers my
20 question. Thank you.

21 CHAIRPERSON HOLLINGER: Any further questions?

22 Okay. Then we'll move on to the next item,
23 number 6. Again, it's an information item. Ms. D'Adamo
24 is going to report on the Enterprise Compliance.

25 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

1 D'ADAMO: I think we skipped Item 5.

2 CHAIRPERSON HOLLINGER: Oh, I apologize, Ms.
3 Chappuie, you're right. Item 5, Beliz Chappuie, report on
4 the audit.

5 CHIEF AUDITOR CHAPPUIE: Good afternoon, Madam
6 Chair, members of the Committee. Beliz Chappuie, Office
7 of Audit Services. Agenda Item 5a is an information item
8 related to actuarial parallel valuation of the Judges's
9 Retirement System I and II, Legislators' Retirement
10 system, and 1959 Survivor Benefit Program.

11 The Board retains the services of an outside
12 actuarial firm to review the work of CalPERS actuarial
13 staff and to certify that their work complies with
14 actuarial professional standards.

15 Buck Consultants a third-party actuarial firm was
16 selected by the Board in November 2015. At the beginning
17 of 2017, Buck Consultants were spun off from Xerox, and
18 now are known as Conduent HR Services. Conduent completed
19 its independent review of the Judges' Retirement System I
20 and II, Legislators' Retirement System, and 1959 Survivor
21 Benefit Program as of June 30, 2016.

22 David Driscoll from Conduent is joining me today
23 present their report and findings to the Committee and to
24 answer any questions that you may have. I would like to
25 turn it over to David at this time.

1 Thank you.

2 MR. DRISCOLL: Thank you. I am pleased to appear
3 before the Board today and to report that we have
4 completed Task 3 under our contract to provide parallel
5 valuation certification services. And as mentioned, in
6 Task 3 we were reviewing the June 30th, 2016 valuations
7 prepared for the 1959 Survivor Benefit Program, the
8 Legislators' Retirement System, the Judges' Retirement
9 System and the Judges' Retirement System II.

10 You've received reports on our parallel valuation
11 and certification efforts for each of those four systems.
12 We're pleased to report that for each of these systems, we
13 were able to reproduce the results achieved by CalPERS
14 actuarial staff within five percent. In some case -- in
15 many cases, we were able to match actually much more
16 closely than that. We found that the actuarial
17 assumptions, and methods, and procedures summarized in the
18 report satisfied all applicable actuarial standards of
19 practice. We found that the reports were appropriately
20 prepared, generally found that the actuarial staff of the
21 CalPERS retirement -- of CalPERS prepared these reports in
22 a highly professional and impressive manner.

23 We did note the existence of a couple of minor
24 technical issues. In particular with the Judges'
25 Retirement System, there was a -- an absence of a

1 pre-retirement mortality assumption for people who'd
2 separated from the system but were not yet collecting
3 benefits. This is a very minor issue. If such a
4 decrement were applied to these people that actually very
5 slightly lower the liabilities of that system.

6 Also, in the Judges' Retirement System, there was
7 a formatting error, I would call it, with -- that was
8 present in '12 of the approximately 2,100 participant
9 records in the system that very slightly affected the
10 overall results of the valuation, but again not at a level
11 that was anything close to material.

12 So our findings are that the actuarial work for
13 these four systems is being well handled by CalPERS
14 actuarial staff, and we are pleased to take any questions
15 that you may have on the matter.

16 CHAIRPERSON HOLLINGER: Thank you to CalPERS
17 actuarial staff. Very impressive, and glad it was
18 validated by the independent audit.

19 Right now, I don't see any questions. So I'm
20 going to move on.

21 Thank you, Mr. Driscoll, so appreciate that.

22 MR. DRISCOLL: Thank you.

23 CHAIRPERSON HOLLINGER: I'm going to move on to
24 the next item, which is again information. Item 6, Ms.
25 D'Adamo.

1 Enterprise Compliance.

2 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

3 D'ADAMO: Yes. Good afternoon again. This is the -- each
4 year CalPERS compiles an annual compliance report for
5 inclusion in the Comprehensive Annual Financial Report, or
6 CAFR. This year's report highlights activities and
7 accomplishments for the fiscal year ending June 30th,
8 2017. You have the report in your -- in your materials.
9 And at this time, I would see if anyone had any questions
10 about the materials.

11 CHAIRPERSON HOLLINGER: Does anyone have any
12 questions?

13 Okay. Seeing no further questions, then on
14 the item -- the next item, Item 7, Summary of Committee
15 Direction, I think the only thing that I have, and I'll
16 just correlate that with you, is maybe getting back to Mr.
17 Jelincic and Mr. Slaton on the Form 700, the filing, if
18 there's any clause either regarding the filing process on
19 grounds for termination in terms of our contracting.

20 Is there anything else?

21 Mr. Slaton.

22 COMMITTEE MEMBER SLATON: Yeah, I didn't have a
23 specific, you know, deliverable that I wanted.

24 CHAIRPERSON HOLLINGER: Oh, okay. Got it.

25 COMMITTEE MEMBER SLATON: It was I was trying to

1 verify the direction they were headed, which is toward
2 having a tighter process and more documentation in the
3 contract that gives better instruction when they get ready
4 to sign of who's responsible, who has to file.

5 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

6 D'ADAMO: Who's responsible for providing notice for those
7 individuals.

8 COMMITTEE MEMBER SLATON: So I'm satisfied with
9 the direction it's going.

10 CHAIRPERSON HOLLINGER: Okay. Great.

11 INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

12 D'ADAMO: So then no Committee direction.

13 CHAIRPERSON HOLLINGER: No Committee direction.
14 And there is a public comment is Judith Painter?
15 She's not here.

16 Oh, okay. Well, in that case, that ends the Risk
17 and Audit Committee open session. And we'll assume closed
18 session right away, as soon as the appropriate people
19 leave.

20 (Thereupon the California Public Employees'
21 Retirement System, Board of Administration,
22 Risk & Audit Committee open session
23 meeting adjourned at 3:46 p.m.)

24

25

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 & Audit Committee open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 25th day of September, 2017.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063