

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, NOVEMBER 14, 2017

5:43 P.M.

JAMES F. PETERS, CSR
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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

Ms. Betty Yee, represented by Mr. Alan Lofaso

BOARD MEMBERS:

Mr. Richard Costigan

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Beliz Chappuie, Chief Auditor

Mr. Forrest Grimes, Chief Risk Officer

Ms. Carrie Lewis, Committee Secretary

Ms. Kimberly Malm, Chief, Operations Support Services
Division

Ms. Kristin Montgomery, Controller

Ms. Marlene Timberlake-D'Adamo, Chief Compliance Officer

ALSO PRESENT:

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

Ms. Caroline Walsh, Macias, Gini & O'Connell

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

2 CHAIRPERSON HOLLINGER: I'm calling to order the
3 November 14th Risk and Audit Committee. And the first
4 call of meet -- the first call -- roll call.

5 COMMITTEE SECRETARY LEWIS: Dana Hollinger?

6 CHAIRPERSON HOLLINGER: Here.

7 COMMITTEE SECRETARY LEWIS: Ron Lind?

8 VICE CHAIRPERSON LIND: Here.

9 COMMITTEE SECRETARY LEWIS: Rob Feckner?

10 PRESIDENT FECKNER: Good evening.

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 CHAIRPERSON HOLLINGER: Excused.

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

19 ACTING COMMITTEE MEMBER LOFASO: Here.

20 CHAIRPERSON HOLLINGER: Okay. Okay. The second
21 item Marlene Timberlake-D'Adamo, the Executive Report.

22 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

23 Yes. Good afternoon -- or no, good evening.

24 Madam Chair, Mr. Vice Chair, members of the Committee.

25 Marlene Timberlake D'Adamo, CalPERS team member.

1 Today, Beliz Chappuie, Chief Auditor, and
2 representatives from Macias, Gini & O'Connell will present
3 to you the independent auditor's report for fiscal year
4 2016-17 and the review of the independent auditor's
5 management letter. MGO will present the draft audit
6 report and accompanying reports on the basic financial
7 statements, and their draft management letters, which
8 includes other -- their observations and recommendations
9 for enhancing internal controls for your approval.

10 In addition, Forrest Grimes, Chief Risk Officer
11 will present the updated risk management framework for
12 your review as part of a collaboration with senior leaders
13 and executive team. The risk profiles were updated and
14 risks were prioritized through a scoring exercise.

15 Today, you will have the opportunity to provide
16 feedback on the updated risk reporting tools.

17 The next Risk and Audit committee meeting is
18 scheduled February 13th, 2018 and includes the election of
19 Risk and Audit Committee Chair and Vice Chair, the review
20 of the Risk and Audit Committee Delegation, and the
21 2017-18 mid-year plan updates for enterprise risk
22 management an enterprise compliance.

23 Thank you, Madam Chair. This concludes my
24 report. I would be happy to take questions.

25 CHAIRPERSON HOLLINGER: Any questions?

1 Seeing no further questions.

2 We have Item 3, action consent item, approval of
3 the September 19th, 2017 Risk and Audit Committee minutes.

4 VICE CHAIRPERSON LIND: Move approval.

5 COMMITTEE MEMBER MATHUR: Second.

6 CHAIRPERSON HOLLINGER: Okay. So the motion was
7 made by Mr. Lind and seconded by Ms. Mathur.

8 All in favor say aye?

9 (Ayes.)

10 CHAIRPERSON HOLLINGER: Any opposed?

11 Item passes.

12 No requests to remove anything on the calendar,
13 so we'll go to Agenda Item 5, which is the Audit. So
14 Beliz Chappuie, Caroline Walsh, David Bullock, and Debbie
15 Chan and MGO. So Item 5A, the independent auditor's
16 report.

17 CHIEF AUDITOR CHAPPUIE: Good evening, Madam
18 Chair and members of the Committee. Beliz Chappuie,
19 CalPERS team. Agenda Item 5a is an action item, the
20 Board's independent financial statement auditor Macias,
21 Gini & O'Connell completed its audit of the CalPERS basic
22 financial statements for the fiscal year-ended June 30,
23 2017. Staff requesting Risk and Audit Committee to
24 approve MGO's audit report, report on required
25 communications, and report on internal control over

1 financial reporting, and on compliance and other matters.

2 Presenting with me today is Caroline Walsh, the
3 engagement partner, and David Bullock, the consulting
4 partner from MGO.

5 With that said, I would like to turn it over to
6 Caroline and David to provide us the results of the
7 financial statement audit.

8 (Thereupon an overhead presentation was
9 presented as follows.)

10 MS. WALSH: Thank you very much, Madam Chair, Mr.
11 Vice Chair, Committee Members.

12 CHIEF AUDITOR CHAPPUIE: Mic.

13 MS. WALSH: Mic.

14 Thank you, Madam Chair, Mr. Vice Chair, Committee
15 members. I'm Caroline Walsh and served as the engagement
16 partner for the first time this year.

17 My goal today is to ensure that we get through
18 these audit results as quickly as we can, so that everyone
19 can have a nice reasonably timed dinner, so -- ours
20 included.

21 --o0o--

22 MS. WALSH: So with the first -- with that, the
23 very first slide we have is to walk you through our
24 responsibilities as your auditors. We were contracted to
25 audit the basic financial statements of CalPERS. And we

1 did so. The basic financial statements consist of your --
2 the actual financial statements of your various defined
3 benefit, defined contribution, your enterprise funds and
4 the notes thereto.

5 We performed that audit in accordance with
6 generally accepted auditing standards and government
7 auditing standards. Now I'd like to point out that
8 government auditing standards was requested for the first
9 time this year.

10 How does that change what we do? It's basically
11 not a substantive change. Government auditing standards
12 are built upon the AICPA standards. The only additional
13 things that we have to do is we have to issue a
14 supplemental report. And David Bullock will walk you
15 through that. And also, the independent standards are a
16 little more rigorous under government auditing standards,
17 and requires the auditor to really evaluate threats to
18 independence and document that prior to accepting an
19 engagement, and we have done so.

20 We issued an unmodified opinion on the basic
21 financial statements, stating that they were in fact in
22 conformity with generally accepted accounting principles.
23 Unmodified means it's a clean opinion. That's a common
24 vernacular used for those types of opinions.

25 We'd like to call your attention to the fact that

1 in our report, we emphasized a couple matters. We
2 identified that the CalPERS elected to early implement
3 governmental auditing standards number 84. And that
4 resulted in the change in the type of fund the replacement
5 benefit fund is reported as.

6 That fund is now referred to as custodial fund.
7 What does that mean to the financial statements? Is that
8 not only do we have a statement of financial position, but
9 we also have a statement of changes in financial position,
10 and that is new to the financial statements this year.

11 The other matter we wanted to emphasize. And
12 matters of emphasis are really things that we'd just like
13 to call the attention to certain items in the financial
14 statements that may be particularly sensitive to the
15 readers of the financials. So we have identified and
16 called to attention the fact that your PERF B and PERF C,
17 which are your two cost sharing pools, have net pension
18 liabilities of 23.9 million -- billion and 9.9 billion.

19 Now, the reason we only call those to your
20 attention because they are the most significant. And
21 under the standards for GASB under 67, we -- CalPERS only
22 needs to report on cost sharing, pool valuation
23 information, and single employer plan valuation
24 information.

25 PERF A which is an agent multiple plan. No

1 actuarial information is required to be disclosed in the
2 financial statements, hence you don't see that referenced
3 in the emphasis in our report.

4 Included in the comprehensive annual financial
5 report is a section referred to as required supplementary
6 information. That is information that GASB identifies
7 that's important to the readers of the financial
8 statements for placing the financial statements in an
9 appropriate operational, economic, or historical context.

10 That information includes the management's
11 discussion and analysis, which proceeds the financial
12 statements. The schedules of changes in net pension
13 liability and asset, and related ratios. And that's for
14 your cost sharing and single-employer plans, schedules of
15 plan contributions, investment returns, your claims
16 development information for your Health Care Fund.

17 And what do we do with respect to that
18 information. Our standards require that we make certain
19 inquiries of management, we compare the information in
20 those various schedules to our understanding of matters
21 that we identified during the audit. And we make sure
22 that they are consistent.

23 However, those procedures are not sufficient for
24 us to render an opinion on that information, and
25 accordingly that information is unaudited.

1 --o0o--

2 MS. WALSH: Okay. The next section of the
3 comprehensive annual financial report is other
4 supplementary information. This is information that's
5 directly derived from the various accounting records used
6 to actually prepare the financial statements. And
7 currently, the schedules you have in your CAFR include
8 administrative expenses, various investment expenses,
9 consultant expenses. And that info -- because it's
10 derived directly from the accounting records used
11 financial statements, we actually perform procedures and
12 ensure that yes, that's right information. We tie it to
13 the accounting records.

14 Now, as a result of doing the audit of the
15 financial statements, and those accounting records, we are
16 able to give what we refer to as an in relation to opinion
17 on that information. So you will see some level of
18 assurance on that information in the CAFR.

19 There are five sections in the comprehensive
20 annual financial report that are not audited. We
21 simply -- and that's the introductory investment,
22 actuarial, statistical, and compliance sections.

23 We do read that information. We look for
24 consistency with information in the audited financial
25 statements. However, we do not audit that information and

1 provide no assurance on it.

2 --o0o--

3 MR. BULLOCK: Okay. The second report that we're
4 going to discuss is the report on internal controls and
5 compliance, in accordance with government auditing
6 standard. It's actually listed as attachment 3 in your
7 packet.

8 It's a very simple report. It's a two-page
9 report. And it -- as the title of the report indicates,
10 its focus is to report or communicate any areas of concern
11 in regards to internal controls or compliance. So we're
12 happy to report that none of the issues that came up
13 during the audit rose to the level of a significant
14 deficiency or material weakness. So there are no internal
15 control matters reported in this -- in this report.

16 And then secondly on noncompliance, we didn't
17 come across any matters that we determined to be not
18 compliant with laws and regulations, or other matters that
19 would be considered like fraud, waste, or abuse issues of
20 that sort.

21 So a very clean opinion as it relates to internal
22 controls and compliance. The third report, which is
23 listed as Attachment number 2 --

24 --o0o--

25 MR. BULLOCK: -- is a report to this Committee.

1 It basically puts our audit into context for you.
2 As you can see from the opinion in the CAFR, we issued an
3 unmodified opinion. But this provides a little more
4 context behind that. It discusses the results of the
5 audit, and provides some information to you that might be
6 important as -- in your role as the governing body or in
7 governing the areas of finance.

8 So the first section of the report talks about
9 qualitative aspects of accounting practices. And here is
10 an area where we highlight any changes in accounting
11 practices or any unusual accounting practices. And the
12 one thing that we've highlighted here is the adoption of
13 GASB 84. You know, management has elected to early adopt.

14 It's not required to be adopted for seven more
15 years until 2020, but management has been proactive and
16 early implemented GASB 84 as it relates to fiduciary
17 activities, and we wanted to call that to your attention.
18 Caroline briefly mentioned it as she talked about the
19 custodial funds.

20 We also highlight significant estimates that are
21 included in the financial statements. And that's
22 important, because estimates by their nature can change as
23 time passes. And so we wanted you to be aware of the
24 estimates in the financial statements. And we highlight
25 those key estimates which really revolve around the

1 actuarial valuations and the investment of -- or, excuse
2 me, the fair value of investments.

3 And then finally, we have a little discussion in
4 there about disclosures and ensuring that you're aware of
5 the key disclosures and that we believe those disclosures
6 are fair -- fairly stated.

7 We're also supposed to report to you several
8 other matters, if they're encountered during the audit.
9 The first one is whether or not there were any
10 difficulties in encountered during the audit. And we're
11 happy to report, there were no difficulties. The audit
12 went as planned. There were no material audit
13 adjustments, or in this case, it was labeled as corrected
14 misstatements. And so we didn't identify anything in the
15 audit, where there had to be an adjustment that was
16 immaterial to the financial statements.

17 There were some items deemed as immaterial. And
18 that's pretty typical when you're doing an audit.
19 Management closes its books and prepares estimates and so
20 forth to ensure timely reporting. And then we come out
21 and do the audit. And time has passed and things come to
22 our attention that may affect those estimates. But those
23 items were immaterial.

24 There's no disagreements with management. There
25 were -- as part of the audit, you know, management, you

1 know, prepares the financial statements. They're
2 responsible for that. And we get a representation letter
3 to that effect from management, and we bring that to your
4 attention.

5 There's no known management consultations or, you
6 know, looking for second opinions kind of as another way
7 to put it. And then the audit findings and other issues,
8 there's a section in there that just calls to your
9 attention certain areas of the CAFR that aren't audited,
10 that we don't express an opinion on. And Caroline covered
11 that when she talked about the other sections that are
12 included in the CAFR. And so I won't rehash that.

13 --o0o--

14 MS. WALSH: Okay. So we'll go to the last slide
15 where we -- I'll briefly review the current year
16 management letter comments and recommendations.

17 Oh, sure.

18 CHIEF AUDITOR CHAPPUIE: I'll quickly introduce
19 the next item, because that's the next item, and it's
20 related to it.

21 CHAIRPERSON HOLLINGER: Well, so you're talking
22 about B?

23 CHIEF AUDITOR CHAPPUIE: Yes, 5b.

24 CHAIRPERSON HOLLINGER: Okay. Well, first, on A,
25 did anybody -- are there any questions regarding that,

1 because A is an action item.

2 So do I have a motion to approve the independent
3 auditor's report?

4 COMMITTEE MEMBER GILLIHAN: So moved.

5 COMMITTEE MEMBER MATHUR: Second.

6 CHAIRPERSON HOLLINGER: Okay. So it's moved by
7 Gillihan seconded by Mathur.

8 All in favor?

9 (Ayes.)

10 CHAIRPERSON HOLLINGER: Any opposed?

11 Okay. Motion passes. Approval passes.

12 B, Review of Independent Auditor's Management
13 Level -- Letter. Pardon me.

14 CHIEF AUDITOR CHAPPUIE: Good evening, Madam
15 Chair and members of the Committee. Beliz Chappuie,
16 CalPERS team. Agenda Item 5b is an action item. This
17 item is related to Agenda Item 5a to the audit of CalPERS
18 financial statements.

19 The Boards independent financial statement
20 auditor, Macias, Gini & O'Connell, completed its audit of
21 CalPERS basic financial statements for the fiscal year
22 ended June 30, 2017, and prepared its management letter as
23 part of the financial statement audit.

24 The independent auditor reviews internal controls
25 over financial reporting as a basis for designing the

1 audit procedures. And it is required by the auditing
2 standard to report their observations, and recommendations
3 to enhance those controls.

4 The management letters also includes updated
5 status on prior year observations. Staff is requesting
6 the Risk and Audit Committee to approve MGO's management
7 letter.

8 I'd like to turn it back over to Caroline and
9 David to discuss the observations included in the draft
10 management letter.

11 MS. WALSH: Thank you. So as a result of our
12 audit this year, we identified three areas which we
13 thought we could enhance internal controls and operating
14 effectiveness. The first one has to do with the
15 management's review and analysis of third-party service
16 organization control reports. Management uses custodial
17 banks, third-party administrators to administer
18 information for the health care and the long-term care
19 operations.

20 And as a result of having all that information,
21 which would ultimately end up in some way, shape, or form
22 in the financial statements, these organizations obtained
23 these service organization control reports. And they --
24 they speak to the design of the controls at the service
25 organization, and also the operating effectiveness of

1 those controls.

2 For the most part, those reports are unqualified,
3 and there's usually not many issues, but we did -- we did
4 find late in the audit process, and that's only because of
5 the timing of when that report was released, that there
6 was one service control report which had some
7 qualifications with respect to some of the design and
8 operating effectiveness.

9 So we really asked management to take a --
10 implement a policy and a procedure to ensure that they're
11 reviewing these things on a timely basis, evaluating their
12 impact on the accumulation of information for the
13 financial statements, and whether or not the controls, and
14 we refer to those as complementary user controls, are in
15 effect in place at CalPERS. And management agree with
16 that -- with that recommendation.

17 The second item relates to the completeness and
18 accuracy --

19 CHAIRPERSON HOLLINGER: Excuse me. We have a
20 question.

21 MS. WALSH: Sure.

22 CHAIRPERSON HOLLINGER: Mr. Lind.

23 VICE CHAIRPERSON LIND: Thank you. On the first
24 topic, and I -- maybe the question, I'm not sure is to you
25 or to Beliz, but is this something new? Why hasn't this

1 been picked up in previous audits? Is it because there's
2 just the first time we found one that had a qualified
3 reports, or a new set of eyes, or what -- how -- why now?

4 MS. WALSH: We actually look at these reports
5 each and every year, and we request to get them. And when
6 we -- we review them in the context of assessing risk.
7 For the various areas, like the investments, and also the
8 third-party administrators over the health care and the
9 long-term care operations

10 This -- to my knowledge, this was the first year
11 that we actually identified one that had a qualification
12 with some access controls, I believe it was characterized
13 at, at one of the third-party administrators. And so that
14 kind of sparked everybody's interest in it, and say, okay,
15 should we be reviewing these things, and how rigorous
16 should we be in reviewing them?

17 VICE CHAIRPERSON LIND: Thank you.

18 MS. WALSH: Okay. Any other questions?

19 Okay. The second item relates to strengthening
20 our current procedures as it relates to accumulating
21 employer submitted OPEB contributions and reimbursements
22 that are reflected in the CERBT fund.

23 And really one of the things we looked at,
24 because we were in another contract employed to look at
25 the GASB 75 OPEB financial statements of these agent

1 plans, we were obviously looking at it at a lower level of
2 materiality. And as result, we did find things where
3 there were errors in the accumulation of data, errors in
4 maybe what the employer submitted. And all of these
5 things were brought to the attention of management. None
6 of these items were material to CalPERS financial
7 statements

8 CHAIRPERSON HOLLINGER: Right. I know we had
9 discussed this, and they were kind of very marginal.

10 MS. WALSH: They're very small.

11 CHAIRPERSON HOLLINGER: Right.

12 MS. WALSH: But we just wanted to make sure they
13 tied down and just making sure they're as accurate as
14 possible.

15 CHAIRPERSON HOLLINGER: Okay. Thank you.

16 MS. WALSH: So the third item really is kind of a
17 carry-forward of a prior year comment. And really as a
18 result of the new accounting presentation for the
19 replacement benefit fund, we obviously looked at how
20 things were classified in the statement of changes and
21 financial position.

22 And we know -- and looked at the reconciliations
23 a lot more closer between the general ledger accounts and
24 my|CalPERS. And so we wanted to make sure that financial
25 management would, in fact, continue to reconcile these

1 accounts.

2 They knew of it last year, and we're just
3 carrying it forward to just kind of finalize and get that
4 all cleaned up as best as possible.

5 Any questions?

6 CHAIRPERSON HOLLINGER: Okay. Thank you. Thank
7 you.

8 Since this is an action item, do I have a motion
9 for --

10 COMMITTEE MEMBER MATHUR: So moved.

11 COMMITTEE MEMBER GILLIHAN: Second.

12 MS. WALSH: Do you want the prior year or...

13 CHAIRPERSON HOLLINGER: I'm sorry?

14 MS. WALSH: Would you like me to talk about the
15 prior -- the status of the prior year comments?

16 CHAIRPERSON HOLLINGER: Oh, got it.

17 Sure.

18 MS. WALSH: Well, in the prior year, we had a
19 comment that we believe has been effectively implemented,
20 and that talked about automating the accounting and
21 reporting of the internal pooled unitized investments with
22 the custodial bank. So we felt that the policies and
23 procedures put in place will be effective, and therefore
24 we consider it implemented and no longer recurring.

25 The next item relates to the matter that was

1 continuing in the current year. I've already discussed
2 the RBF fund.

3 The third item related to we had an observation
4 last year whereby, you know, the actuarial team was
5 accustomed to doing an annual actuarial valuation. Last
6 year, there were delays in getting information from the
7 third-party administrator with respect to sensitive data.
8 And due to constraints from a time perspective and also a
9 resource perspective, they weren't able to get a full
10 actuarial valuation done. As we looked at it this year,
11 similar situations occurred. And so it was determined
12 that ACTO would apply a roll-forward methodology as
13 opposed to looking and creating a new actuarial valuation
14 each and every year. This is consistent with how you look
15 at your pension liabilities.

16 So this was the first year they took the June
17 30th 2016 valuation, and they rolled it forward to 2017
18 using standard actuarial practices. And we expect that
19 that's the policy that's going to be on a go-forward
20 basis.

21 The last item relates to an item we identified
22 back in 2015. And that's to continue to identify,
23 validate, and correct the employer data in my|CalPERS.
24 And that's still in process and there's a few items we
25 noted.

1 So that concludes my comments, if you have any
2 questions?

3 CHAIRPERSON HOLLINGER: Seeing no questions.
4 Okay I'll ask again -- this action --

5 COMMITTEE MEMBER MATHUR: The motion is on the
6 table.

7 CHAIRPERSON HOLLINGER: Pardon?

8 COMMITTEE MEMBER MATHUR: The motion is on the
9 table.

10 CHAIRPERSON HOLLINGER: Okay. So it was moved by
11 Mathur, and seconded by Gillihan.

12 All in favor?

13 (Ayes.)

14 CHAIRPERSON HOLLINGER: Any opposed?

15 Motion passes.

16 Thank you very much.

17 MS. WALSH: Thank you.

18 CHAIRPERSON HOLLINGER: We're down to Item 6.

19 Forrest Grimes, you want to -- 6a, Enterprise Risk
20 Management Framework Review.

21 Thank you, Mr. Grimes.

22 (Thereupon an overhead presentation was
23 presented as follows.)

24 CHIEF RISK OFFICER GRIMES: Good evening, Madam
25 Chair and Committee members. We fine ourselves here once

1 again, a little late in the evening.

2 (Laughter.)

3 CHIEF RISK OFFICER GRIMES: Really, you know, I
4 think I would like to engage you in whatever amount of
5 conversation you'd like. Really, I think you established
6 a very important strategic goal of cultivating a risk
7 intelligent organization.

8 This is the second iteration of the risk profile,
9 the risk management framework, the profiles, the heatmap,
10 the dashboard that you have now seen. I think in the last
11 year, we've really clarified the risk profiles to make
12 them much more, I'm going to say, user-friendly throughout
13 the enterprise. And I think that's a very good thing, so
14 that everyone can pick up a profile and read it, all of
15 our team members.

16 Also, Melissa Azevedo, my Assistant Chief and
17 myself attended the risk society -- Risk Management
18 Society Conference, which is pretty well renowned in our
19 industry, our area of expertise. And we really feel that
20 we are really on the right track in this iterative process
21 that we're on.

22 But with that, I would like to just turn it over
23 to you and see what your thoughts are.

24 CHAIRPERSON HOLLINGER: Before I call the
25 question -- questions, I just wanted to share with you,

1 Ms. Timberlake D'Adamo, Mr. Grimes, you know, we've worked
2 extensively. We've really talked a lot about risk to the
3 system. And I just want to extend my appreciation to the
4 thoroughness and the evaluation of staff and how hard
5 they've worked on the risk profile and so thank you.

6 Mr. Lind.

7 VICE CHAIRPERSON LIND: Yeah, in a similar vein.
8 Forrest, you have a bad habit of being the last man
9 standing.

10 (Laughter.)

11 CHIEF RISK OFFICER GRIMES: That's -- it's not my
12 fault.

13 (Laughter.)

14 VICE CHAIRPERSON LIND: No, it isn't.

15 I'm going to lobby the President to move this
16 Committee earlier at some point in the process, so we can
17 have a more thorough discussion. But this work-product
18 just continues to get better, in my opinion. I've said
19 that before. It's concise. It's clear. It's a great
20 layout. And I'll be the first to admit that I don't read
21 every report for every committee at every monthly Board
22 meeting. But this is one of the ones that I do look at
23 pretty closely, because it's a great -- it's a great
24 overview and a great explanation of what's going on, what
25 the risks are, what the proposed mitigations are.

1 So thanks for the work-product. I'm sure that it
2 will continue to get better as we go forward.

3 CHIEF RISK OFFICER GRIMES: Thank you, Mr. Lind
4 and keep on reading. We'll keep bringing you stuff.

5 CHAIRPERSON HOLLINGER: Thank you.

6 Ms. Mathur.

7 COMMITTEE MEMBER MATHUR: Thank you. Well, I
8 agree about the quality of the report, so I won't belabor
9 it, but I just wanted to add my thoughts there. I did
10 want to ask specifically about business continuity. We
11 talked earlier today about health and how a lot of
12 exogenous factors are creating a more risky environment
13 for the health -- the health benefits.

14 But in business continuity, that seems like
15 something that is more within our control. Could you talk
16 a little bit more about how the enterprise is addressing,
17 or can somebody talk a little bit more about how the
18 enterprise is addressing those key issues.

19 CHIEF RISK OFFICER GRIMES: Why don't I take a
20 crack at it, and then my colleagues can pick it up, if I
21 miss anything.

22 Really, you know, business continuity has come a
23 long way. And the reason that we're maintaining it at
24 it's current status, it's not so much that nothing has
25 really gone on, it's that we're in really a phase 2, which

1 is now getting into the point where we can truly
2 implement. And from a risk management perspective, we
3 want those things tested. And so once we have everything
4 matured, which I think we are now well underway with the
5 phase 2 effort, the testing will really let us know if we
6 actually have good mitigations in place. And so that's
7 why it's maintained its status.

8 COMMITTEE MEMBER MATHUR: Okay. Thank you.

9 CHIEF RISK OFFICER GRIMES: Kim, you want to add
10 anything?

11 COMMITTEE MEMBER MATHUR: I think Ms. Malm might
12 want to add to it.

13 CHAIRPERSON HOLLINGER: Do you want to add
14 something?

15 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

16 I don't but --

17 (Laughter.)

18 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

19 Good evening. Kim Malm, CalPERS staff.

20 As Forrest mentioned, we had a -- not a lot done
21 on the business continuity plans for a number of years.
22 And last year, we started with phase one, and we were able
23 to do the 30-day plans for all of the divisions. In this
24 phase 2, gets us farther to do full resumption that we're
25 in the middle of right now. It's about a year and a half.

1 And then also taking a look at the necessity to possibly
2 replace the buildings.

3 And so because we're still in phase 2 of the
4 project, and we're not done with that yet. In fact, we're
5 just actually getting started with phase 2. It's going to
6 stay this color until we get done with the project.

7 COMMITTEE MEMBER MATHUR: Okay. Thank you.

8 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
9 Thanks.

10 CHAIRPERSON HOLLINGER: Okay. Thank you. Any
11 other questions?

12 COMMITTEE MEMBER MATHUR: Sorry, I have one more
13 question --

14 CHAIRPERSON HOLLINGER: I'm sorry.

15 COMMITTEE MEMBER MATHUR: -- for Forrest, if
16 that's all right?

17 CHAIRPERSON HOLLINGER: Of course.

18 COMMITTEE MEMBER MATHUR: So my second question
19 is, you know, really one of your opening remarks was about
20 cultivating a risk intelligent organization.

21 CHIEF RISK OFFICER GRIMES: Yes.

22 COMMITTEE MEMBER MATHUR: And I definitely get
23 the sense that the executive team is focused on risk and
24 risk management. My question is how do you feel about how
25 it has percolated throughout the organization, and do you

1 think that there is ownership of risk and risk management
2 at all levels of the organization, and what further
3 actions should we take to ensure that that happens?

4 CHIEF RISK OFFICER GRIMES: That's a really great
5 question. So maybe a two-fold answer.

6 The risk management team is developing some
7 educational opportunities for basically all of our team
8 members, and also onboarding specifically for new team
9 members. So I think that's a really good step.

10 Additionally, we've done a tremendous amount of
11 collaboration with our senior leadership council, which is
12 made up of all division chiefs. And so these risks really
13 were vetted through not only that group, but also their
14 teams. And we went really -- this year, we really went
15 cross-program, so that if perhaps multiple program areas
16 had ownerships of various components of the risk on the
17 risk profiles, that we really met in unison.

18 So I think that that's really added a lot of
19 value. So I think -- and I hear more and more people
20 talking with what's the risk of that?

21 So while that's not scientific, by any means,
22 it's, you know, a positive indicator, I think. So does
23 that answer your question?

24 COMMITTEE MEMBER MATHUR: Yeah, I think that
25 gives me a flavor.

1 Thank you.

2 CHIEF RISK OFFICER GRIMES: Okay. Sure.

3 CHAIRPERSON HOLLINGER: And I just had one
4 question, based on the independent auditor's report and
5 Ms. Timberlake D'Adamo, we discussed it as well, you know,
6 where they noticed on our third-party vendors that
7 potentially there's some risk exposure there. Is there
8 some type of -- do we need to come up with some type of
9 screening or process or that they need to complete?

10 CHIEF RISK OFFICER GRIMES: I'm going to phone a
11 friend here.

12 (Laughter.)

13 CHAIRPERSON HOLLINGER: Oh, okay.

14 CONTROLLER MONTGOMERY: Kristin Montgomery
15 CalPERS team.

16 Yeah, what we are instituting is they're called
17 SSAE16 reports. And what they are, the audited reports of
18 like our State Street Bank. They'll do an auditor report
19 of their internal controls.

20 CHAIRPERSON HOLLINGER: Okay.

21 CONTROLLER MONTGOMERY: The third parties will do
22 that. What we're going to put in place is so that we look
23 at all the reports, look at any kind of risks in those
24 reports from a financial reporting perspective. So we're
25 going to put that in place over the year.

1 CHAIRPERSON HOLLINGER: Okay. Thank you. Thank
2 you very much.

3 CONTROLLER MONTGOMERY: You're welcome.

4 CHAIRPERSON HOLLINGER: Any other questions?

5 No.

6 I don't believe we had any Committee direction?

7 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: I
8 did not record any.

9 CHAIRPERSON HOLLINGER: Okay. Well, this meeting
10 is adjourned.

11 (Thereupon the California Public Employees'
12 Retirement System, Board of Administration,
13 Risk & Audit Committee open session
14 meeting adjourned at 6:14 p.m.)

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

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

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

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

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

16 IN WITNESS WHEREOF, I have hereunto set my hand
17 this 19th day of November, 2017.

18
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20 

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23 Certified Shorthand Reporter
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