APPEARANCES

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
# INDEX

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Call to Order and Roll Call</td>
<td>1</td>
</tr>
<tr>
<td>2. Executive Report</td>
<td>1</td>
</tr>
<tr>
<td>3. Consent Items</td>
<td>3</td>
</tr>
<tr>
<td>Action Consent Items:</td>
<td></td>
</tr>
<tr>
<td>a. Approval of the September 19, 2017 Risk &amp; Audit Committee Meeting</td>
<td></td>
</tr>
<tr>
<td>4. Consent Items</td>
<td>3</td>
</tr>
<tr>
<td>Information Consent Items:</td>
<td></td>
</tr>
<tr>
<td>a. 2017 Annual Calendar Review</td>
<td></td>
</tr>
<tr>
<td>b. 2018 Annual Calendar Review</td>
<td></td>
</tr>
<tr>
<td>c. Draft Agenda for the February 13, 2018 Risk &amp; Audit Committee Meeting</td>
<td></td>
</tr>
<tr>
<td>d. Quarterly Status Report – Office of Audit Services</td>
<td></td>
</tr>
<tr>
<td>e. Quarterly Status Report – Enterprise Risk Management</td>
<td></td>
</tr>
<tr>
<td>f. Quarterly Status Report – Enterprise Compliance Activity</td>
<td></td>
</tr>
<tr>
<td>5. Audit</td>
<td>3</td>
</tr>
<tr>
<td>a. Independent Auditor’s Report – Fiscal Year 2016-17</td>
<td></td>
</tr>
<tr>
<td>b. Review of Independent Auditor’s Management Letter</td>
<td>13</td>
</tr>
<tr>
<td>Information Agenda Items</td>
<td></td>
</tr>
<tr>
<td>6. Enterprise Risk Management</td>
<td>20</td>
</tr>
<tr>
<td>a. Enterprise Risk Management Framework Review</td>
<td></td>
</tr>
<tr>
<td>7. Summary of Committee Direction</td>
<td>28</td>
</tr>
<tr>
<td>8. Public Comment</td>
<td>28</td>
</tr>
<tr>
<td>Adjournment</td>
<td>28</td>
</tr>
<tr>
<td>Reporter's Certificate</td>
<td>29</td>
</tr>
</tbody>
</table>
PROCEEDINGS

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

COMMITTEE SECRETARY LEWIS: Dana Hollinger?
CHAIRPERSON HOLLINGER: Here.
COMMITTEE SECRETARY LEWIS: Ron Lind?
VICE CHAIRPERSON LIND: Here.
COMMITTEE SECRETARY LEWIS: Rob Feckner?
PRESIDENT FECKNER: Good evening.
COMMITTEE SECRETARY LEWIS: Richard Gillihan?
COMMITTEE MEMBER GILLIHAN: Here.
COMMITTEE SECRETARY LEWIS: Priya Mathur?
COMMITTEE MEMBER MATHUR: Here.
COMMITTEE SECRETARY LEWIS: Bill Slaton?
CHAIRPERSON HOLLINGER: Excused.
COMMITTEE SECRETARY LEWIS: Alan Lofaso for Betty Yee?
ACTING COMMITTEE MEMBER LOFASO: Here.
CHAIRPERSON HOLLINGER: Okay. Okay. The second item Marlene Timberlake-D'Adamo, the Executive Report.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

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

Madam Chair, Mr. Vice Chair, members of the Committee. Marlene Timberlake D'Adamo, CalPERS team member.
Today, Beliz Chappuie, Chief Auditor, and representatives from Macias, Gini & O'Connell will present to you the independent auditor's report for fiscal year 2016-17 and the review of the independent auditor's management letter. MGO will present the draft audit report and accompanying reports on the basic financial statements, and their draft management letters, which includes other -- their observations and recommendations for enhancing internal controls for your approval.

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

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

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

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

CHAIRPERSON HOLLINGER: Any questions?
Seeing no further questions.

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

VICE CHAIRPERSON LIND: Move approval.

COMMITTEE MEMBER MATHUR: Second.

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

All in favor say aye?

(Ayes.)

CHAIRPERSON HOLLINGER: Any opposed?

Item passes.

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

CHIEF AUDITOR CHAPPUIE: Good evening, Madam Chair and members of the Committee. Beliz Chappuie, CalPERS team. Agenda Item 5a is an action item, the Board's independent financial statement auditor Macias, Gini & O'Connell completed its audit of the CalPERS basic financial statements for the fiscal year-ended June 30, 2017. Staff requesting Risk and Audit Committee to approve MGO's audit report, report on required communications, and report on internal control over
financial reporting, and on compliance and other matters. Presenting with me today is Caroline Walsh, the engagement partner, and David Bullock, the consulting partner from MGO. With that said, I would like to turn it over to Caroline and David to provide us the results of the financial statement audit.

(Thereupon an overhead presentation was presented as follows.)

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

CHIEF AUDITOR CHAPPUIE: Mic.

MS. WALSH: Mic.

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

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

--o0o--

MS. WALSH: So with the first -- with that, the very first slide we have is to walk you through our responsibilities as your auditors. We were contracted to audit the basic financial statements of CalPERS. And we
did so. The basic financial statements consist of your --
the actual financial statements of your various defined
benefit, defined contribution, your enterprise funds and
the notes thereto.

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

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

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

We'd like to call your attention to the fact that
in our report, we emphasized a couple matters. We identified that the CalPERS elected to early implement governmental auditing standards number 84. And that resulted in the change in the type of fund the replacement benefit fund is reported as.

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

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

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

PERF A which is an agent multiple plan. No
actuarial information is required to be disclosed in the financial statements, hence you don't see that referenced in the emphasis in our report.

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

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

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

However, those procedures are not sufficient for us to render an opinion on that information, and accordingly that information is unaudited.
MS. WALSH: Okay. The next section of the comprehensive annual financial report is other supplementary information. This is information that's directly derived from the various accounting records used to actually prepare the financial statements. And currently, the schedules you have in your CAFR include administrative expenses, various investment expenses, consultant expenses. And that info -- because it's derived directly from the accounting records used financial statements, we actually perform procedures and ensure that yes, that's right information. We tie it to the accounting records.

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

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

We do read that information. We look for consistency with information in the audited financial statements. However, we do not audit that information and
provide no assurance on it.

--o0o--

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

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

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

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

--o0o--

MR. BULLOCK: -- is a report to this Committee.
It basically puts our audit into context for you. As you can see from the opinion in the CAFR, we issued an unmodified opinion. But this provides a little more context behind that. It discusses the results of the audit, and provides some information to you that might be important as -- in your role as the governing body or in governing the areas of finance.

So the first section of the report talks about qualitative aspects of accounting practices. And here is an area where we highlight any changes in accounting practices or any unusual accounting practices. And the one thing that we've highlighted here is the adoption of GASB 84. You know, management has elected to early adopt. It's not required to be adopted for seven more years until 2020, but management has been proactive and early implemented GASB 84 as it relates to fiduciary activities, and we wanted to call that to your attention. Caroline briefly mentioned it as she talked about the custodial funds.

We also highlight significant estimates that are included in the financial statements. And that's important, because estimates by their nature can change as time passes. And so we wanted you to be aware of the estimates in the financial statements. And we highlight those key estimates which really revolve around the
actuarial valuations and the investment of -- or, excuse me, the fair value of investments.

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

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

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

There's no disagreements with management. There were -- as part of the audit, you know, management, you
know, prepares the financial statements. They're responsible for that. And we get a representation letter to that effect from management, and we bring that to your attention.

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

--o0o--

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

Oh, sure.

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

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

CHIEF AUDITOR CHAPPUIE: Yes, 5b.

CHAIRPERSON HOLLINGER: Okay. Well, first, on A, did anybody -- are there any questions regarding that,
because A is an action item.

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

COMMITTEE MEMBER GILLIHAN: So moved.

COMMITTEE MEMBER MATHUR: Second.

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

All in favor?

(Ayes.)

CHAIRPERSON HOLLINGER: Any opposed?

Okay. Motion passes. Approval passes.


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

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

The independent auditor reviews internal controls over financial reporting as a basis for designing the
audit procedures. And it is required by the auditing standard to report their observations, and recommendations to enhance those controls.

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

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

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

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

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

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

The second item relates to the completeness and accuracy --

CHAIRPERSON HOLLINGER: Excuse me. We have a question.

MS. WALSH: Sure.

CHAIRPERSON HOLLINGER: Mr. Lind.

VICE CHAIRPERSON LIND: Thank you. On the first topic, and I -- maybe the question, I'm not sure is to you or to Beliz, but is this something new? Why hasn't this
been picked up in previous audits? Is it because there's
just the first time we found one that had a qualified
reports, or a new set of eyes, or what -- how -- why now?

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

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

VICE CHAIRPERSON LIND: Thank you.

MS. WALSH: Okay. Any other questions?

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

And really one of the things we looked at,
because we were in another contract employed to look at
the GASB 75 OPEB financial statements of these agent
plans, we were obviously looking at it at a lower level of materiality. And as result, we did find things where there were errors in the accumulation of data, errors in maybe what the employer submitted. And all of these things were brought to the attention of management. None of these items were material to CalPERS financial statements.

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

MS. WALSH: They're very small.

CHAIRPERSON HOLLINGER: Right.

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

CHAIRPERSON HOLLINGER: Okay. Thank you.

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

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

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

Any questions?

CHAIRPERSON HOLLINGER: Okay. Thank you. Thank you.

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

COMMITTEE MEMBER MATHUR: So moved.

COMMITTEE MEMBER GILLIHAN: Second.

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

CHAIRPERSON HOLLINGER: I'm sorry?

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

CHAIRPERSON HOLLINGER: Oh, got it.

Sure.

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

The next item relates to the matter that was
continuing in the current year. I've already discussed the RBF fund.

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

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

The last item relates to an item we identified back in 2015. And that's to continue to identify, validate, and correct the employer data in my CalPERS. And that's still in process and there's a few items we noted.
So that concludes my comments, if you have any questions?

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

COMMITTEE MEMBER MATHUR: The motion is on the table.

CHAIRPERSON HOLLINGER: Pardon?
COMMITTEE MEMBER MATHUR: The motion is on the table.

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

All in favor?

(Ayes.)

CHAIRPERSON HOLLINGER: Any opposed?

Motion passes.

Thank you very much.

MS. WALSH: Thank you.

CHAIRPERSON HOLLINGER: We're down to Item 6.

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

Thank you, Mr. Grimes.

(Thereupon an overhead presentation was presented as follows.)

CHIEF RISK OFFICER GRIMES: Good evening, Madam Chair and Committee members. We fine ourselves here once
again, a little late in the evening.

(Laughter.)

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

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

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

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

CHAIRPERSON HOLLINGER: Before I call the question -- questions, I just wanted to share with you,
Ms. Timberlake D'Adamo, Mr. Grimes, you know, we've worked extensively. We've really talked a lot about risk to the system. And I just want to extend my appreciation to the thoroughness and the evaluation of staff and how hard they've worked on the risk profile and so thank you.

Mr. Lind.

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

(Laughter.)

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

(Laughter.)

VICE CHAIRPERSON LIND: No, it isn't.

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

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

CHAIRPERSON HOLLINGER: Thank you.

Ms. Mathur.

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

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

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

Really, you know, business continuity has come a long way. And the reason that we're maintaining it at it's current status, it's not so much that nothing has really gone on, it's that we're in really a phase 2, which
is now getting into the point where we can truly implement. And from a risk management perspective, we want those things tested. And so once we have everything matured, which I think we are now well underway with the phase 2 effort, the testing will really let us know if we actually have good mitigations in place. And so that's why it's maintained its status.

COMMITTEE MEMBER MATHUR: Okay. Thank you.

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

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

CHAIRPERSON HOLLINGER: Do you want to add something?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: I don't but --

(Laughter.)

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Good evening. Kim Malm, CalPERS staff.

As Forrest mentioned, we had a -- not a lot done on the business continuity plans for a number of years. And last year, we started with phase one, and we were able to do the 30-day plans for all of the divisions. In this phase 2, gets us farther to do full resumption that we're in the middle of right now. It's about a year and a half.
And then also taking a look at the necessity to possibly replace the buildings.

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

COMMITTEE MEMBER MATHUR: Okay. Thank you.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Thanks.

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

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

CHAIRPERSON HOLLINGER: I'm sorry.

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

CHAIRPERSON HOLLINGER: Of course.

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

CHIEF RISK OFFICER GRIMES: Yes.

COMMITTEE MEMBER MATHUR: And I definitely get the sense that the executive team is focused on risk and risk management. My question is how do you feel about how it has percolated throughout the organization, and do you
think that there is ownership of risk and risk management at all levels of the organization, and what further actions should we take to ensure that that happens?

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

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

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

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

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

COMMITTEE MEMBER MATHUR: Yeah, I think that gives me a flavor.
Thank you.

CHIEF RISK OFFICER GRIMES: Okay. Sure.

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

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

(Laughter.)

CHAIRPERSON HOLLINGER: Oh, okay.

CONTROLLER MONTGOMERY: Kristin Montgomery CalPERS team.

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

CHAIRPERSON HOLLINGER: Okay.

CONTROLLER MONTGOMERY: The third parties will do that. What we're going to put in place is so that we look at all the reports, look at any kind of risks in those reports from a financial reporting perspective. So we're going to put that in place over the year.
CHAIRPERSON HOLLINGER: Okay. Thank you. Thank you very much.

CONTROLLER MONTGOMERY: You're welcome.

CHAIRPERSON HOLLINGER: Any other questions? No.

I don't believe we had any Committee direction?

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

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

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

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 19th day of November, 2017.

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