APPEARANCES

COMMITTEE MEMBERS:
Ms. Dana Hollinger, Chairperson
Mr. Bill Slaton, Vice Chairperson
Ms. Margaret Brown
Mr. John Chiang, represented by Mr. Matthew Saha
Mr. Richard Costigan
Ms. Priya Mathur
Ms. Betty Yee, represented by Mr. Alan Lofaso

BOARD MEMBERS:
Mr. Rob Feckner, Vice President
Ms. Adria Jenkins-Jones, represented by Mr. Ralph Cobb
Mr. Henry Jones

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
Mr. Forrest Grimes, Chief Risk Officer
Ms. Carrie Lewis, Committee Secretary
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PROCEEDINGS

CHAIRPERSON HOLLINGER: The Risk and Audit Committee is now coming to order.

First order of business is the roll call.

COMMITTEE SECRETARY LEWIS: Dana Hollinger?
CHAIRPERSON HOLLINGER: Here.

COMMITTEE SECRETARY LEWIS: Margaret Brown?

COMMITTEE MEMBER BROWN: Here.

COMMITTEE SECRETARY LEWIS: Matthew Saha for John Chiang?

ACTING COMMITTEE MEMBER SAHA: Here.

COMMITTEE SECRETARY LEWIS: Richard Costigan?

COMMITTEE MEMBER COSTIGAN: Here.

COMMITTEE SECRETARY LEWIS: Priya Mathur?

COMMITTEE MEMBER MATHUR: Good morning.

COMMITTEE SECRETARY LEWIS: Bill Slaton?

CHAIRPERSON HOLLINGER: I think he's in back, but --

COMMITTEE SECRETARY LEWIS: Alan Lofaso for Betty Yee?

ACTING COMMITTEE MEMBER LOFASO: Here.

CHAIRPERSON HOLLINGER: Oh, and please note Bill Slaton just joined.

Okay. First order of business is approval of the September 25th, 2018 Risk and Audit Committee agenda. Do
I have a motion?

COMMITTEE MEMBER BROWN: Moved approval.

COMMITTEE MEMBER MATHUR: Second.

CHAIRPERSON HOLLINGER: Moved by Brown, seconded by Mathur.

All in favor?

(Ayes.)

CHAIRPERSON HOLLINGER: Any opposed?

Motion passes.

Next item is the executive report. And I call on Marlene Timberlake D'Adamo.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Thank you. Good morning, Madam Chair, Committee members. Marlene Timberlake D'Adamo, CalPERS team member.

Today you have one action item before you, the Office of Audit Services Charter update. This item is mandated by the International Standards for the Professional Practice of Internal Auditing and requires the Chief Auditor to periodically review the internal audit charter and present to the Board for approval.

In addition, Enterprise Compliance will present the 2017-18 Annual Compliance Report as an information item. This item highlights activities and accomplishments for the fiscal year, and the information is within and included in the CAFR.
Lastly, Enterprise Risk Management will present the suggested tolerance levels for the strategic risk measures. These measures will monitor the degree of risk CalPERS is prepared to accept for each measure based on the Board's risk appetite.

The next Risk and Audit Committee meeting is scheduled for November 14th, 2018 here in Sacramento, and includes the independent auditor's report, the review of the independent auditor's management letter, the finalist selection for the independent financial statement auditor and the enterprise risk management framework review.

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

CHAIRPERSON HOLLINGER: Seeing no questions.

Do I have a motion to approve the June 20th, 2018 Risk and Audit Committee meeting minutes.

COMMITTEE MEMBER MATHUR: So moved.

COMMITTEE MEMBER COSTIGAN: Second.

CHAIRPERSON HOLLINGER: Moved by Mathur, second by Costigan.

All in favor?

(Ayes.)

CHAIRPERSON HOLLINGER: Any opposed?

Motion passes.

Item 5 is information and consent items. And
I've had no requests to take anything off the calendar. So we move to 6, which is an action agenda item. And Ms. Chappuie could you please give us the Chief Office of Audit Services Charter update.

CHIEF AUDITOR CHAPPUIE: Good morning, Madam Chair and members of the Committee. Beliz Chappuie Office of Audit Services. Agenda Item 6a is an action item. Staff is requesting Risk and Audit Committee to approve Office of Audit Services Charter update.

The International Standards for Professional Practice of Internal audit -- in Internal Auditing require the Chief Auditor to periodically review the internal audit charter and present to senior management and the Board for approval. The current Office of Audit Services charter was reviewed and approved by the Finance Committee in November 2011.

The audit charter documents the purpose, authority, and the responsibility of CalPERS internal audit activity. The charter also establishes the internal audit activity's position within the organization, including the nature of Chief Auditor's functional reporting relationship with the Board, authorizes access to records, personnel, and physical properties relevant to the performance of engagements, and defines the scope of internal audit activities.
The proposed updates are minor in nature and are intended to further clarify the sections of professionalism, independence, scope of work, responsibility, and reporting and monitoring. The red-lined version of the charter was included as an attachment to the agenda item.

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


COMMITTEE MEMBER MATHUR: Thank you.

I have a question on page three of the draft of the revised charter. And I'm looking at attachment 6A -- attachment 2, page three of six, the red-lined in the first chapter -- the first paragraph, the last sentence. "The Chief Auditor shall have no roles or -- and/or responsibilities that fall outside of internal auditing. However, if the Chief Auditor is asked to take on a role and/or responsibility outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity".

This is new language. And I can appreciate that I -- as I believe, maybe you can share the intent, is to ensure -- is to ensure independence and not -- and objectivity. So -- but maybe you can speak a little bit to the addition of this language.
CHIEF AUDITOR CHAPPUIE: Sure.

COMMITTEE MEMBER MATHUR: Yeah.

CHIEF AUDITOR CHAPPUIE: When we were updating the current charter, we followed the standards. So there was suggested language to include in the charter. We followed the suggested language and we compared it to our existing charter, and we added the things that weren't there. So it's pretty much following what the standards and best practices require us to do.

COMMITTEE MEMBER MATHUR: In the industry?

CHIEF AUDITOR CHAPPUIE: Correct.

COMMITTEE MEMBER MATHUR: So I know that we have a culture at CalPERS of sort of cross-enterprise collaboration, and -- and that is generally a positive thing. Of course, with respect to the internal auditor, you, of course -- the Chief Auditor, you definitely want this independence and this objectivity.

So I guess my question is, you know, the first sentence and the second sentence seem a little bit at odds, in that it's an absolute statement. The first statement is that there shall be no roles or responsibilities. And then the second is if you're asked to, that you -- maybe you have to try to preserve -- you know, limit impairments.

So maybe it shouldn't be quite so absolute the
first sentence. But as a general rule, the Chief Auditor shall have no roles or responsibilities or -- or, you know, they seem a little bit contradictory.

CHIEF AUDITOR CHAPPUIE: Right. So, in general, the Auditor should not take any operational role in the organization.

COMMITTEE MEMBER MATHUR: Sure.

CHIEF AUDITOR CHAPPUIE: However, because of the knowledge and expertise that we also possess in our office --

COMMITTEE MEMBER MATHUR: Right.

CHIEF AUDITOR CHAPPUIE: -- we're sometimes expected to sit on committees as -- you know, as a consultant in an advisory role. And it also helps us to follow the progress and operations within organization. So of several committees that I sit on, I'm an advisory member. I don't vote on actions. I can't be part of --

COMMITTEE MEMBER MATHUR: Sure.

CHIEF AUDITOR CHAPPUIE: -- the decisions that they take. However, it's also for me to be involved and follow the operations.

COMMITTEE MEMBER MATHUR: So I think there could be some language that we should add to make it a little bit less absolute or maybe some -- maybe should articulate that. It would be only in a consultative or advisory
capacity, never in a decision-making operational capacity.

I think that it needs a little bit more
clarification, because obviously your knowledge and
expertise is valuable to this organization, beyond just
the performance of the audits. But as you say, obviously,
you can't be a party to a decision that then your office
is auditing. That is -- that must be prohibited. So I
think --

CHIEF AUDITOR CHAPPUIE: We can work on revising
it a little bit.

COMMITTEE MEMBER MATHUR: -- somehow the language
doesn't quite get there.

CHIEF AUDITOR CHAPPUIE: Sure.

COMMITTEE MEMBER MATHUR: And I'm afraid I don't
have perfect language to offer.

CHIEF AUDITOR CHAPPUIE: Okay. We can work on
it.

COMMITTEE MEMBER MATHUR: Thank you.

CHAIRPERSON HOLLINGER: Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you, Madam Chair.

I'm on that same page, but my question is with
the first change in the red-line, which says that,
"Internal auditors will remain from interference by any
element in the organization...". And then you say,
"...that threaten your ability to carry out internal audit
responsibilities in an unbiased manner".

So what type of interference would you have that wouldn't cause you to -- that wouldn't threaten your ability. I'm just trying to figure out what are those interferences that we're talking about here.

CHIEF AUDITOR CHAPPUIE: This is to -- if any interference that could preclude me from performing my duties and responsibilities and losing my independence. So I cannot just come up with a scenario right now. And this is more to memorialize it in case something comes up. Then I can just pull the charter up and say this would interfere with my independence. And I have to refrain from performing these duties.

CHAIRPERSON HOLLINGER: So it -- that's more like, I guess, a fail-safe if something should happen, that --

COMMITTEE MEMBER BROWN: Yeah. It just says that threaten to carry out your internal audit. I'm just trying to figure out, well, what interference would there be? I just don't know why we would need to add the additional thing. Just free from interference by any element in the organization.

Anyways, I just didn't know what other interference there would be.

CHIEF AUDITOR CHAPPUIE: These are the languages
that we pretty much pulled from the best practices and the
standards that --

   COMMITTEE MEMBER BROWN: So you're just copying
a charter.

   CHIEF AUDITOR CHAPPUIE: -- the charter --
we're -- right, it's not me --

   COMMITTEE MEMBER BROWN: Okay.

   CHIEF AUDITOR CHAPPUIE: -- interjecting or
inputting this language in here. It's pretty much the
recommended language in the charter, so we pretty much
copied from it.

   COMMITTEE MEMBER BROWN: So I'm -- so there
hasn't been some other interference that's going on.

   CHIEF AUDITOR CHAPPUIE: No, correct.

   COMMITTEE MEMBER BROWN: Okay. Thank you.

   CHAIRPERSON HOLLINGER: Yeah, it's more like if
something should happen in the future.

   COMMITTEE MEMBER BROWN: Okay.

   CHAIRPERSON HOLLINGER: Are you done?

   COMMITTEE MEMBER BROWN: Um-hmm.

   CHAIRPERSON HOLLINGER: Okay. Great. Thank you.

   Mr. Slaton.

   VICE CHAIRPERSON SLATON: Thank you, Madam Chair.

I want to go to page three -- or excuse me, five of six.
And in the internal audit plan, it says in the middle of
the first paragraph, "...including as appropriate any plan amendments, special tasks, or projects requested by management and RAC", this committee.

And then in the next sentence it says -- next paragraph, "Any significant deviation from the..." -- oh, I see. Wait a minute. "There's a prioritization based on risk-based methodology including input of the executive team and the Board".

So I'm trying to understand is it the Board, is it RAC? There seems to be a little bit of a conflict there as to who provides input. And here's where I'm trying to get to. The more important question is this, let's say I, as a Board member, have an issue that I think warrants internal audit work. So I want to make sure there's a process for me to raise that issue, and I would think it would be with this Committee. And then this Committee would debate that and decide whether to charge you with that responsibility to go look at that particular issue. Am I -- do we have that ability, and if we don't, why not?

CHIEF AUDITOR CHAPPUIE: Yes, you do have that ability. The reason it's documented here in this way, we do -- during -- every year in the spring, we go through a risk assessment process to identify those assignments that we would like to conduct in the following fiscal year --
VICE CHAIRPERSON SLATON: Right.

CHIEF AUDITOR CHAPPUIE: -- because the universe is huge, the resources are limited. We can't possibly audit everything every year.

VICE CHAIRPERSON SLATON: Sure.

CHIEF AUDITOR CHAPPUIE: So in doing that, there's three things we do. We also seek input from the Board members through surveys. We send an electronic survey to each and every Board member.

However, you're right, the Risk and Audit Committee is carved out, and it has delegation from the Board to oversee the audit function. The lines there -- it's beyond my role and responsibility how the communication could come through the Board members to the Risk and Audit Committee and be communicated to me. That could be discussed further. And how -- this sentence just refers to that risk assessment we conduct every year.

VICE CHAIRPERSON SLATON: Okay. So but you're doing this -- you're essentially coming up with an audit plan --

CHIEF AUDITOR CHAPPUIE: Right.

VICE CHAIRPERSON SLATON: -- once a year, based on your judgment of the risk that we face, and the resources that you have. And that's reviewed by us, and we agree, okay, that's the plan.
VICE CHAIRPERSON SLATON: So now let's fast forward three months and I've now raised an issue with RAC that I think something needs to be -- I'd like something to be looked at. And if the Committee agrees, then how do we incorporate that?

CHIEF AUDITOR CHAPPUIE: Absolutely. That be could communicated to us through the Risk and Audit Committee, whether -- if it's a consulting engagement, we already budget ours for consulting engagements just for those needs, like you expressed. And sometimes it comes through the executive team, sometimes those requests come through the senior leadership as well.

We take those into consideration and we honor those assignments throughout the fiscal year. We certainly will take those into consideration, if there's a need that comes to -- but how -- if you're asking me how to communicate that through the process, it could be communicated to us and then we'll update it on our quarterly report to say that we're including these assignments on our plan.

VICE CHAIRPERSON SLATON: I guess what I don't see quite in here, I guess it's implied, but it's not in here specifically that this Committee has the delegated authority to essentially require you to look at something.
Now, in the other board I'm on, we -- that board, we do have that ability to do that to direct the internal auditor to be able to look at something if we, as a committee, feel it's important enough. Now, I don't know if that then has to go to the Board for a decision, or whether it's totally delegated here.

But what I'm trying to get to is if, as an individual Board member, we should not be able to direct you to go look at something, as an individual Board member.

CHIEF AUDITOR CHAPPUIE: Okay.

VICE CHAIRPERSON SLATON: But as Committee or as a Board, we should have that ability to do that, if we feel there's something that needs to be looked at.

CHIEF AUDITOR CHAPPUIE: Certainly. Okay. You would like us to add in here?

VICE CHAIRPERSON SLATON: So that's what I'm -- that's what I'm looking for here, and I don't quite see it --

CHIEF AUDITOR CHAPPUIE: Okay. We can add it here.

VICE CHAIRPERSON SLATON: -- in the words.

CHIEF AUDITOR CHAPPUIE: We can add it in here.

CHAIRPERSON HOLLINGER: So what I'm seeing is -- and I'm not sure if we need a motion for this, because
this is an action item, Ms. Mathur's comment to add as on
Item -- Agenda Item 6a, attachment 2, three of six, "As a
general rule, the Chief Auditor shall have no roles and/or
responsibilities", to add that language, and then to
address Mr. Slaton to give the Risk and Audit Committee
having a delegated authority to direct the internal
audit -- Chief Auditor.

CHIEF AUDITOR CHAPPUIE: Okay.

CHAIRPERSON HOLLINGER: Did any -- do we need a
motion for that or...

COMMITTEE MEMBER MATHUR: (Nods head.)

CHAIRPERSON HOLLINGER: Okay. Does somebody want
to make that motion?

I don't think -- okay. Ms. Mathur.

COMMITTEE MEMBER MATHUR: I don't think in this
charter we can address the delegations of the -- from the
Board to the Committee. I think that is embedded in the
delegation to the Committee. So I would extract that from
what you were outlining.

CHAIRPERSON HOLLINGER: Okay.

COMMITTEE MEMBER MATHUR: I think if we want to
review the delegation, that's something that comes to the
Committee for review every year, as I recall. And so --
and we reviewed it, I believe, in March or April. I can't
recall exactly, but we certainly could look at that in
that regard.

But I appreciate your capturing my comment. And I think putting in -- as a general rule --

CHAIRPERSON HOLLINGER: Right.

COMMITTEE MEMBER MATHUR: -- before the Chief Auditor on page three. And then I would say, however, if Chief Auditor is asked to take on a -- and maybe we should be explicit about it being a consulting or advisory role outside of internal auditing. So --

CHAIRPERSON HOLLINGER: Right. It should be --

COMMITTEE MEMBER MATHUR: So maybe sort of -- putting a boundary around what kind of role it could be, or a non-operational non-decision make -- I don't know how we're -- we can -- do you think -- do you think consulting advisory would --

CHIEF AUDITOR CHAPPUIE: Yeah, yeah.

COMMITTEE MEMBER MATHUR: -- capture it.

Then I'm happy to make the motion to adopt this with that change.

COMMITTEE MEMBER COSTIGAN: I'll second it.

CHAIRPERSON HOLLINGER: Okay.

COMMITTEE MEMBER MATHUR: Thank you.

CHAIRPERSON HOLLINGER: So it's made by Mathur, seconded by Costigan.

All in favor --
VICE CHAIRPERSON SLATON: Whoa, whoa, whoa. Wait a minute. I want to -- I want to -- can we discuss the motion just a little bit?

CHAIRPERSON HOLLINGER: You're not --

VICE CHAIRPERSON SLATON: Yeah, I am. I'm on.

CHAIRPERSON HOLLINGER: Oh, I didn't realize.

Okay. It doesn't show up.

VICE CHAIRPERSON SLATON: Is that okay, Chair. I just -- We have a motion and a second.

COMMITTEE MEMBER MATHUR: Yeah, he seconded it. I made it and Costigan seconded it.

VICE CHAIRPERSON SLATON: Yeah. Okay. So I just -- but the change does not include what I was discussing.

COMMITTEE MEMBER MATHUR: It does not --

VICE CHAIRPERSON SLATON: It does not. Okay.

COMMITTEE MEMBER MATHUR: -- because that's part of the delegation from the Board to the --

VICE CHAIRPERSON SLATON: But -- here's a fix of it, because that could -- the delegation could come later. The issue is whether this Board, or a Committee of this Board, can direct the internal auditor to look at something. And that could be by modifying the words, "...including input from the executive team and the Board", because the Board could do this. So if you change
the word "input" including direction -- if you put "change input" to "direction" --

CHAIRPERSON HOLLINGER: Okay. This is on page five of six.

VICE CHAIRPERSON SLATON: This is page five.

CHAIRPERSON HOLLINGER: On the internal audit plan.

VICE CHAIRPERSON SLATON: Internal audit plan, last paragraph on the page.

CHIEF AUDITOR CHAPPUIE: Second paragraph.

CHAIRPERSON HOLLINGER: Got it.

VICE CHAIRPERSON SLATON: And if you change the word "input" to "direction", then it implies the Board could do this. And then later on, if we choose to -- if the Board wants to delegate that in the delegation to RAC, that's fine. That could be accomplished. But it allows the Board to direct the internal auditor to look at something, if we feel, as a group, it needs to be looked at.

CHIEF AUDITOR CHAPPUIE: May I suggest one more --

VICE CHAIRPERSON SLATON: So I would ask if that --

CHAIRPERSON HOLLINGER: Yeah, go ahead, Ms. Chappuie.
CHIEF AUDITOR CHAPPUIE: What if we changed that -- the word "Board" to "RAC", then the charter requires the Risk and Audit Committee to direct me if an assignment comes up, and then maybe the delegation could be worked on later between the Board and the Risk and Audit Committee, would that help?

CHAIRPERSON HOLLINGER: Well, could you -- I couldn't really understand what --

CHIEF AUDITOR CHAPPUIE: In that second -- so in the -- in the sec -- in the second paragraph under internal auditing --

CHAIRPERSON HOLLINGER: Correct.

CHIEF AUDITOR CHAPPUIE: -- as Bill Slaton suggested, we're going to switch -- change the word from "including input" to "including direction from the executive team and the Board", as it reads right now.

CHAIRPERSON HOLLINGER: Oh.

CHIEF AUDITOR CHAPPUIE: And I'm suggesting if we change the Board to Risk and Audit Committee, would that help? That way it has to come from the Risk and Audit Committee, and then the Board and Risk and Audit Committee work on the direction later. Would that help?

CHAIRPERSON HOLLINGER: Well, I find that would be limiting its scope from the Board to narrowing the scope to just the Risk and Audit Committee, and I'm not
sure that my --

VICE CHAIRPERSON SLATON: It's a sequence problem.

CHAIRPERSON HOLLINGER: Right.

VICE CHAIRPERSON SLATON: Because right now we don't have that delegated authority. Is that the point Ms. Mathur I believe is making. So if you make it -- if we're -- if this is an action item and you make it Board, then the Board can choose later to delegate it. But I would say it's -- the one other change I would suggest is "...including direction of the executive team and/or the Board", because the Board may want to have you look at something. So it's really an and/or.

So if you leave it Board, then it later can be changed to RAC, if we choose to as a group.


COMMITTEE MEMBER MATHUR: So I -- if I'm understanding Mr. Slaton's suggestion, it's not so much whether it's the Risk and Audit Committee versus the Board. It's more this word input versus direction. So I guess -- I think what I'm understanding him to say, and correct me if I'm incorrect, is that he doesn't want you, the Chief Auditor, to just consider our input in the audit plan. But that if we say we really -- we direct you to do this, then that -- then you would take it on to the plan.
CHIEF AUDITOR CHAPPUIE: Absolutely, yes.

COMMITTEE MEMBER MATHUR: So I think it's maybe really definitional question about the word "input", and what does that mean.

CHAIRPERSON HOLLINGER: Well, direction implies that we have delegated authority. Input is just input.

COMMITTEE MEMBER MATHUR: Well, I --

CHIEF AUDITOR CHAPPUIE: This is -- this is during the risk assessment --

COMMITTEE MEMBER MATHUR: Yes.

CHIEF AUDITOR CHAPPUIE: -- and preparation of the audit plan.

CHAIRPERSON HOLLINGER: Oh.

CHIEF AUDITOR CHAPPUIE: So we seek input from the Board --

CHAIRPERSON HOLLINGER: Right.

CHIEF AUDITOR CHAPPUIE: -- the executive team, the senior leaders, right? We seek input from all the executive team --

COMMITTEE MEMBER MATHUR: My --

CHIEF AUDITOR CHAPPUIE: -- management team, I would say, everybody, right, overseeing the organization, the Board, executive team, and the senior leaders. And then we also factor in our knowledge, and expertise, and understanding, and then identify those auditable
assignments for the year.

      COMMITTEE MEMBER MATHUR: I mean, ultimately, the
      Board adopts the audit plan.

      CHIEF AUDITOR CHAPPUIE: Correct.

      COMMITTEE MEMBER MATHUR: I mean, the Committee
      makes a recommendation to the Board to adopt the audit
      plan. So, in effect, we do direct whether -- what's
      included in the audit plan by that very action. So I
      guess for my view, we don't necessarily need the word
      "direct" in here. That we provide input --

      CHAIRPERSON HOLLINGER: Right.

      COMMITTEE MEMBER MATHUR: -- you incorporate it.
      We review it. If we think something is missing, we again
      provide input. You amend it and it comes back to us and
      we ultimately adopt it.

      So I personally think that we could leave the
      word "input", and it would still go through it's regular
      process of approval and we would -- the Board ultimately
      has the opportunity to determine what is included in that
      audit plan.

      CHIEF AUDITOR CHAPPUIE: Correct. And that would
      be the audit plan. However, like Bill Slaton said, as
      assignments come up or if something comes up throughout
      the year, we could always take that into consideration and
      perform that assignment if Board directs us to do that --
COMMITTEE MEMBER MATHUR: Yeah.

CHIEF AUDITOR CHAPPUIE: -- in addition to the audit plan. This is just specifically for preparation of the audit plan.

VICE CHAIRPERSON SLATON: For the audit plan. Okay. Well, like I said, I just want to make sure there's a vehicle for if someone has an issue, they bring it before the appropriate body of this Board, whether Board or Committee, and then there's an ability to have that issue looked at by your team. That's all I'm trying to accomplish.

CHIEF AUDITOR CHAPPUIE: Absolutely. Absolutely. It could be directly --

VICE CHAIRPERSON SLATON: So if we can do it under these words, I'm fine.

COMMITTEE MEMBER MATHUR: I think the appropriate --

CHAIRPERSON HOLLINGER: I'm fairly comfortable that that exists.

VICE CHAIRPERSON SLATON: Okay. All right.

COMMITTEE MEMBER MATHUR: Just to close this out, I think the appropriate mechanism is to, if you have a concern to raise it with the Chair, say I'd like to put it on the agenda, and then the Chair would work with the team the put -- to agendize it, and then the Committee can make
a recommendation, and the Board can approve it.

CHAIRPERSON HOLLINGER: Yes.

VICE CHAIRPERSON SLATON: Okay I'm fine.

CHIEF AUDITOR CHAPPUIE: Perfect.

COMMITTEE MEMBER MATHUR: Thank you.

CHAIRPERSON HOLLINGER: So, Ms. Mathur, made a motion to approve the charter with the amended language.

Mr. Costigan seconded the motion.

So all those in favor say aye?

(Ayes.)

CHAIRPERSON HOLLINGER: Any opposed?

Motion passes.

So we're now at 7a.

BOARD MEMBER JONES: Madam --

CHAIRPERSON HOLLINGER: Oh, I'm -- it doesn't for some reason -- sorry, Mr. Jones --

BOARD MEMBER JONES: Okay.

CHAIRPERSON HOLLINGER: You're on. Oh, I just -- could you hit it again.

Go ahead.

BOARD MEMBER JONES: Okay. Thank you, Madam Chair.

Yeah, I have a request, and I'm not so sure that it's the Audit Committee that should consider it, or whether it's the Governance Committee, or whether it's
Performance and Comp. And that is, is that recently we've had to rely on an independent investigation on a number of issues. And I think that we need to have a discussion or consideration about establishing an Inspector General position. And I want to -- to this Committee whether or not this is the appropriate place to bring it back for discussion, or whether it's Governance. And since the President is here, she could also opine on that. So that's what I would like.

CHAIRPERSON HOLLINGER: Well, it is regarding risk to the system.

BOARD MEMBER JONES: Um-hmm.

CHAIRPERSON HOLLINGER: And I'm -- yeah, Matt, can you tell us the appropriate committee to bring it up?

GENERAL COUNSEL JACOBS: It's not crystal clear, but I would say it would probably be Governance.


COMMITTEE MEMBER MATHUR: If I -- if I -- I would just suggest, yes, I'm happy to have a conversation with you. It's not on this agenda today, so we can't discuss it.

BOARD MEMBER JONES: Yeah, but I wanted to raise it, because I didn't know. I'm trying to -- a clarification of which is the appropriate committee. Okay.
COMMITTEE MEMBER MATHUR: Happy to have a conversation with you about it.

BOARD MEMBER JONES: Okay. Thank you.

CHAIRPERSON HOLLINGER: Okay. Okay. So now, that brings us to 7a the annual compliance reports. Ms. D'Adamo.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE D'ADAMO: Good morning. So this item, 7a, is the Annual Compliance Report. It is an agenda item that you see every year in September. And then it gets incorporated into the CAFR as part of the November agenda item.

This agenda item is a little bit different this year. We've modified it a bit. We've tried to streamline it and highlight the work of the Enterprise Compliance Branch, as well as the embedded compliance liaisons that exist throughout the enterprise.

The integrated assurance model is something that we talk about a lot and it's highlighted in this -- in this document. It incorporates governance, risk, and compliance practices as a multi-faceted approach to promote compliance, awareness, and accountability. Our model focuses on the three lines of defense framework, which promotes collaboration and increased understanding of roles and responsibilities.

The report highlights different activities within

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the Enterprise Compliance Branch focusing on the
Enterprise Compliance Monitoring and Oversight Unit, the
Enterprise Ethical Standards and Investigations Unit,
Enterprise Policy and Delegation management, as well as
operations, communications, and reporting.

In terms of our embedded compliance efforts,
we've highlighted compliance activities within our Health
Policy and Benefits Branch, as well as customer services
and support, the investment Office, our operations and
technology branch, human resources services, and our
operations support services.

What you'll see from this document is that
enterprise compliance works very closely with many of the
divisions within the enterprise, and we're focused on
getting to our -- the conclusion of our five-year plan
which goes through 2020. At this point, I can stop and
take any questions if you have on the report.

CHAIRPERSON HOLLINGER: Seeing none -- oh, I'm
sorry. Ms. Mathur.

COMMITTEE MEMBER MATHUR: Sorry, Madam Chair.

First of all, I'm so thrilled to see the culture
of compliance front and center. We've talked about that
before, but I think that is -- that is important. I did
want to ask -- you know, obviously, we have embedded
compliance officers in the various divisions and branches,
as well as your compliance --

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: Um-hmm.

COMMITTEE MEMBER MATHUR: -- your stand-alone compliance team. And you talked about on page six of 14 of the report that -- about the embedded Compliance Program partnered with embedded compliance liaisons to strengthen compliance controls, oversight, and awareness. And I'm just wondering if you could give a little bit more color to that and what does that look like? How do you ensure that there's good communication between your stand-alone team and the embedded compliance officers and how that works in practice?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: Sure. So the Three Lines of Defense model is a model that exists where the first line is essentially your program areas. It's really where your compliance and your risk activities take place. They actually own the compliance and the risk that happens within those programs.

Your second line of defense is essentially your oversight team, which is us and others. There's a -- quite a few branches or divisions within compli -- CalPERS that are second line of defense. And the role of second line is really to provide assurance that the first line is
doing the things that they're supposed to be doing. It's almost like a trust but verify sort of model.

And then the third line is actually your audit group.

And so when you have your programs, your second line, and your audit, you put together what looks like a framework of three lines of defense, where there's work that's being done, there's oversight and monitoring, and then there's the validation that occurs within your audit -- your audit department. And it really is a circular sort of thing.

We actually engage in our enterprise -- Integrated Assurance Group, where we have a lot of the groups in second and third line, where we get together and we really go over what's happening within the enterprise. We're making sure that we're not duplicating work. We're making sure that we're really connected with what's happening with the program areas.

And then within the embedded compliance liaisons, Enterprise Compliance works with those team members. They're designated individuals within the program areas that I've listed here, where they're charged with responsibilities of helping to build their individual compliance programs, where they're helping us with training, they're doing some monitoring. Really working
with them to make sure that we can assure ourselves that
the work that's being done at that first level is actually
being done. And that's really how they work together in
terms of first line and second line.

COMMITTEE MEMBER MATHUR: Okay. Thank you so
much.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE
D'ADAMO: Sure.

CHAIRPERSON HOLLINGER: I wanted to really
applaud the team. And as you know, risk is near and dear
to my heart. So I really appreciate this three lines of
defense, and that we have those checks and balances,
really strengthening the governance, and the compliance,
and risk within the organization.

So thank you.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE
D'ADAMO: Thank you.

CHAIRPERSON HOLLINGER: Next is, seeing no
further questions, 7b, Strategic Risk Measures Tolerances.

Mr. Grimes.

(Thereupon an overhead presentation was
presented as follows.)

CHIEF RISK OFFICER GRIMES: Good morning, Madam
Chair, Committee members. Board members, thank you for
attending. Forrest Grimes, CalPERS team.
Today, really this is a continuation of our June conversation when we talked about strategic risk measures. And today we're going to present risk tolerances for each of the risk measures. This describes how much uncertainty the Board is willing to accept for each of the enterprise risks. And if you would mind -- if you wouldn't mind turning to page 88 in your Board books, this is really the attachment that lays out the thresholds -- the tolerances rather.

And the tolerances are very similar to the thresholds that you're very familiar with through the enterprise performance reporting side. And with that, what I'd like to do is really just to stop and ask you if you have questions on the content or methodology of any of the tolerances that we've selected. So with that, I'm going to turn it back to you, Madam Chair.

CHAIRPERSON HOLLINGER: Thank you. I appreciate that. Just a question. I noticed -- well, obviously, we don't have the current status on this -- these reports filled in. When can we -- what's the timeline for that.

CHIEF RISK OFFICER GRIMES: I'm so -- I'm so pleased that you asked that.

(Laughter.)

CHIEF RISK OFFICER GRIMES: We plan on bringing those -- we plan on -- if you like these -- these
tolerances, what the Risk team will do is we'll start collecting data based on this information.

CHAIRPERSON HOLLINGER: Right.

CHIEF RISK OFFICER GRIMES: And then we will bring back to you in February at the Risk and Audit Committee in our semiannual update, basically what we would propose to be what type of reports you're going to see and the timing of those reports.

I can assure you that we're having pretty detailed conversations with the -- within the enterprise regarding how do these performance and risk measures really integrate, and how should we be reporting them to you. And so --

CHAIRPERSON HOLLINGER: Right.

CHIEF RISK OFFICER GRIMES: -- I think we'll be giving that some, you know, ongoing thought and debate between now and February, and then come back to you with a recommendation.

CHAIRPERSON HOLLINGER: No, I appreciate that. And I -- I really like the risk tolerance that you set out. And obviously the -- the unfunded liability and the focus, I applaud you. So thank you.

Ms. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. So I just want to -- if we could just review for a moment, the risk
tolerance --

CHIEF RISK OFFICER GRIMES: Certainly.

COMMITTEE MEMBER MATHUR: -- of where it has attention required, monitoring required, managed appropriately --

CHIEF RISK OFFICER GRIMES: Yes.

COMMITTEE MEMBER MATHUR: -- those percentages are the probability of the event that's listed in the top row occurring, right? So, for example, in the column two PERF funding levels below 50 percent, attention is required -- would be required if the probability of that occurring was greater than 20 percent.

CHIEF RISK OFFICER GRIMES: Exactly. And I think when you said probability, you hit on really the key term, because the actuaries will be calculating that. And it's really that probability of that event occurring --

CHAIRPERSON HOLLINGER: Right.

CHIEF RISK OFFICER GRIMES: -- that we're going to be focused on. And I might, you know, just add that you saw these as performance measures previously. And I think that -- you know, I think it was July at the off-site that really the Performance team really was kind of telling you that we're moving this to the risk side.

CHAIRPERSON HOLLINGER: Right.

CHIEF RISK OFFICER GRIMES: And I think that you
can see that those are -- those are truly leading indicators of potential funding risks. So I think they're in the right place right now. And we're just really, you know, following up on that to move them over to the risk side.

COMMITTEE MEMBER MATHUR: I appreciate that. You know, of course, these three -- these are clearly key risks for CalPERS.

CHIEF RISK OFFICER GRIMES: Yes.

COMMITTEE MEMBER MATHUR: And they are, in some ways, interrelated, and perhaps in some senses the solutions to resolving one or the other of them might be in conflict with the other. So, for example, to address a funding level -- the Probability of a funding level below 50 percent might require an increase in employer contributions so it could create it could impact the other two risks components.

CHIEF RISK OFFICER GRIMES: Well, absolutely. And I want to take you back to late 2017, when really the full Board contemplated the ALM cycle, and really discussed those really, you know, opposing risks in many cases. And that's really where we resolved that, and where you resolved that is to really kind of look at those two opposing sides and determine what the right balance is.
COMMITTEE MEMBER MATHUR: Yeah, exactly.

Terrific. Well, I think this is good work. Thank you so much.

CHIEF RISK OFFICER GRIMES: Thank you.

CHAIRPERSON HOLLINGER: Seeing no further questions.

We're on 7c, summary of Committee direction. Ms. D'Adamo.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: Yes. The only direction that I have was the conversation around the Audit Services Charter. And I think that was --

CHAIRPERSON HOLLINGER: Right.

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: -- pretty well defined. So that was all I had for Committee direction.

CHAIRPERSON HOLLINGER: And those were my directions as well -- or my notes as well.

Okay. So the Risk and Audit Committee is -- the open session is -- is there anything else?

INTERIM CHIEF FINANCIAL OFFICER TIMBERLAKE

D'ADAMO: No. I just didn't know if there was any public comment.

CHAIRPERSON HOLLINGER: No public comment. No, I have gotten no requests to speak, so the -- anybody out --
have a request to speak that has not put it in?

Okay. So the open session is now closed.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Risk & Audit Committee open session meeting adjourned at 9:36 a.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 30th day of September, 2018.

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