November 16, 2018

Risk and Audit Committee
California Public Employees' Retirement System
Sacramento, California

Ladies and Gentlemen:

We have audited the financial statements of the fiduciary activities and proprietary activities of the California Public Employees' Retirement System (the System), a component unit of the State of California, as of June 30, 2018 and for the year then ended, and have issued our report thereon under date of November 16, 2018. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

Our Responsibility Under Professional Standards

We are responsible for forming and expressing opinions about whether the financial statements that have been prepared by management with the oversight of Risk and Audit Committee, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with auditing standards generally accepted in the United States of America (AICPA) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management Risk and Audit Committee of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of Risk and Audit Committee in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the System's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the System's comprehensive annual financial report, and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Accounting Practices and Alternative Treatments

Significant Accounting Policies are Described in Note 2 to the Financial Statements

As described in Note 2, in order to comply with the requirements of Governmental Accounting Standards, the System adopted GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pensions*.

Also as described in Note 2, the System recorded an immaterial correction to its previously reported financial statements to properly reflect its proportionate share of activity related to pensions in accordance with GASB No. 68, *Accounting and Reporting for Pensions*.

Qualitative Aspects of Accounting Practices

We have discussed with the Risk and Audit Committee and management our judgments about the quality, not just the acceptability, of the System's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the System's accounting policies and their application, and the understandability and completeness of the System's financial statements, which include related disclosures.

Management Judgments and Accounting Estimates

The preparation of the financial statements requires management of the System to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of fiduciary and proprietary activities during the period.

Management's estimate of the total pension liability for its single-employer and its multiple-employer cost sharing defined pension plans is prepared by CalPERS actuaries and based on certain actuarial assumptions. We evaluated the actuarial assumptions used, including possible management bias in developing those estimates, in determining they are reasonable in relation to the financial statements.

Management's estimate of the investments at net asset value is based on audited financial statements and an appropriate benchmark to estimate the change in value to the System's fiscal year end. We evaluated the benchmarks used to develop the estimates, including possible management bias in developing those estimates, in determining they are reasonable in relation to the financial statements.

Management's estimate of incurred but not reported (IBNR) insurance claims is based on an actuarial analysis. We evaluated management's IBNR analysis and the calculation methodology used to determine the accrual, including possible management bias in developing the estimate, in determining it is reasonable in relation to the financial statements.

Management's estimate of the liability for future policy benefits is based on an actuarial analysis. We evaluated management's liability for future policy benefits analysis and the calculation methodology used to determine the liability, including possible management bias in developing the estimate, in determining it is reasonable in relation to the proprietary activities.

Uncorrected Misstatements

In connection with our audit of the System's financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the System's books and records as of and for the year ended June 30, 2018. We have reported such misstatements to management on a Summary of Uncorrected Audit Misstatements and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Attached is a copy of the summary that has been provided to, and discussed with, management.

Disagreements with Management

There were no disagreements with management on financial accounting and reporting matters that would have caused a modification of our auditors' report on the System's financial statements.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with Management Prior to Retention

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with you and management each year prior to our retention by you as the System's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Material Written Communications

The following are material written communications between management and us:

1. Agreement Number 2017-8393 dated June 6, 2018, that governs our audit contract for fiscal 2018 and also includes our Engagement Letter; and

2. Management representation letter

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

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This letter to the Risk and Audit Committee is intended solely for the information and use of the Risk and Audit Committee and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

(signed) KPMG LLP

California Public Employees' Retirement System
Summary of Uncorrected Audit Misstatements
June 30, 2018

Amounts in '000's

Method Used to Quantify Audit Misstatements: Balance Sheet Method

Correcting Entry Required at Current Period End						Income Statement Effect - Debit (Credit)	Balance Sheet Effect - Debit (Credit)			Cash Flow Effect - Increase (Decrease)		
ID	**Description of misstatement**	**Type of misstatement**	**Accounts**	**Debit**	**(Credit)**	**Income effect according to Iron Curtain (Balance Sheet) method**	**Net Position**	**Assets & Deferred Outflows**	**Liabilities & Deferred Inflows**	**Operating Activities**	**Investing Activities**	**Financing Activities**
Fiduciary Funds												
	To record the adjustment		Beginning of the year									
AM 1	*to the OPEB liability based*	Judgmental	net position	250,266								
	on updated numbers		Deferred Inflows		(74,430)				(74,430)			
			OPEB Obligation		(151,499)				(151,499)			
			Pension expense		(24,337)	(24,337)						
AM 2	*To record the difference*	Factual	Investments - NAV	1,239,380				1,239,380				
	between the estimated		Net appreciation in									
	and actual 6/30 value		fair value of									
			investments		(1,239,380)	(1,239,380)						
			Total uncorrected misstatement	1,489,646	(1,489,646)	(1,263,717)	-	1,239,380	(225,929)	-	-	-
			Final Balance as reported in CAFR			(30,187,869)	(365,580,900)	390,882,835	(25,301,935)			
			Percentage of Uncorrected Audit Misstatement to Final Balances as reported			4.19%	0.00%	0.32%	0.89%			
Proprietary Funds												
			Beginning of the year									
AM 3		Judgmental	net position	45,872								
	To record the adjustment		Deferred Inflows		(13,643)				(13,643)			
	to the OPEB liability based		OPEB Obligation		(27,768)				(27,768)	45,872		
	on updated numbers		Pension expense		(4,461)	(4,461)						
			Total uncorrected misstatement	45,872	(45,872)	(4,461)	-	-	(41,411)	45,872	-	-
			Final Balance as reported in CAFR			57566	351,094	6,742,244	6,391,150	365,341	(363,175)	-
			Percentage of Uncorrected Audit Misstatement to Final Balances as reported			-7.75%	0.00%	0.00%	-0.65%	12.56%		