

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

WEDNESDAY, NOVEMBER 14, 2018

2:46 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. Bill Slaton, Vice Chairperson

Mr. John Chiang, represented by Mr. Matthew Saha

Mr. Richard Costigan

Ms. Priya Mathur

Ms. Betty Yee, represented by Mr. Alan Lofaso

BOARD MEMBERS:

Ms. Adria Jenkins-Jones, represented by Mr. Ralph Cobb

Mr. David Miller

Mr. Ramon Rubalcava

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Marlene Timberlake D'Adamo, Chief Compliance Officer

Ms. Beliz Chappuie, Chief Auditor

Mr. Forrest Grimes, Chief Risk Officer

Ms. Carrie Lewis, Committee Secretary

ALSO PRESENT:

Ms. Lisa Avis, KPMG

Ms. Bridgette Gyorfi, KPMG

Mr. Brock Romano, KPMG

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

2 CHAIRPERSON HOLLINGER: The Risk and Audit
3 Committee is now starting.

4 Thank you. First order of business is call to
5 order and roll call.

6 COMMITTEE SECRETARY LEWIS: Dana Hollinger?

7 CHAIRPERSON HOLLINGER: Here.

8 COMMITTEE SECRETARY LEWIS: Margaret Brown?

9 CHAIRPERSON HOLLINGER: Excused.

10 COMMITTEE SECRETARY LEWIS: Matthew Saha for John
11 Chiang?

12 ACTING COMMITTEE MEMBER SAHA: Here.

13 COMMITTEE SECRETARY LEWIS: Richard Costigan?

14 COMMITTEE MEMBER COSTIGAN: Here.

15 COMMITTEE SECRETARY LEWIS: Priya Mathur?

16 COMMITTEE MEMBER MATHUR: Here.

17 COMMITTEE SECRETARY LEWIS: Bill Slaton?

18 VICE CHAIRPERSON SLATON: Here.

19 COMMITTEE SECRETARY LEWIS: And Alan Lofaso for
20 Betty Yee?

21 ACTING COMMITTEE MEMBER LOFASO: Here.

22 CHAIRPERSON HOLLINGER: And please note in
23 attendance is David Miller and Ralph Cobb.

24 All right. Okay. So first order of business --
25 or second order is approval of the November 14th, 2018

1 Risk and Audit Committee timed agenda.

2 VICE CHAIRPERSON SLATON: Moved.

3 CHAIRPERSON HOLLINGER: Okay. Moved by Slaton.

4 COMMITTEE MEMBER COSTIGAN: Second.

5 CHAIRPERSON HOLLINGER: Seconded by Costigan.

6 All in favor?

7 (Ayes.)

8 CHAIRPERSON HOLLINGER: Any opposed?

9 Motion passes.

10 Third item is Ms. D'Adamo and the Executive
11 Report.

12 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

13 Thank you. Good afternoon. Madam Chair and
14 Committee members, Marlene Timberlake D'Adamo, CalPERS
15 team member. Today's agenda will focus primarily on audit
16 action items. Beliz Chappuie, Chief Auditor, and
17 representatives from KPMG will present to you the
18 independent auditor's report for fiscal year 2017-18, and
19 the review of the independent auditor's management letter.

20 KPMG will also present the draft audit report and
21 accompanying reports on the basic financial statements and
22 their draft management letter. The last audit item is the
23 independent the financial statement auditor selection.

24 Lastly, Forrest Grimes will present the
25 enterprise risk management framework review as an

1 information item. This will include the enterprise-wide
2 risk assessment outcomes presented in the risk management
3 dashboard, updated risk profiles by cross-functional
4 workgroups, and the risk heat map showing prioritization
5 of each risk.

6 The next Risk and Audit Committee meeting is
7 scheduled for February 20th, 2019 and includes the review
8 of the Risk and Audit Committee Delegation, and the
9 2018-19 mid-year plans for Enterprise Compliance and the
10 Enterprise Risk Management Divisions.

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

13 CHAIRPERSON HOLLINGER: Seeing no questions.

14 Do I have a motion to approve the September 25th,
15 2018 Risk and Audit Committee meeting minutes.

16 COMMITTEE MEMBER MATHUR: So moved.

17 CHAIRPERSON HOLLINGER: Okay. Moved by Mathur.

18 COMMITTEE MEMBER COSTIGAN: Second.

19 CHAIRPERSON HOLLINGER: Second by Costigan.

20 All those in favor?

21 (Ayes.)

22 CHAIRPERSON HOLLINGER: Any opposed?

23 Motion carries.

24 Nothing is being pulled off the consent calendar,
25 so it moves us to Item 6, Action Agenda Item, the

1 Independent Auditor's Report.

2 Ms. Chappuie.

3 CHIEF AUDITOR CHAPPUIE: Good afternoon, Madam
4 Chair, members of the Committee. Beliz Chappuie, Office
5 of Audit Services.

6 Agenda Item 6a is an action item. Staff is
7 requesting the Risk and Audit Committee to approve the
8 Board's independent financial statement auditor, KPMG's
9 audit reports for the fiscal year ended June 30, 2018.

10 KPMG staff are here presenting with me. I would
11 like to turn it over to Lisa Avis, Managing Director from
12 KPMG.

13 MS. AVIS: Thank you, Madam Chair, Committee.

14 Again, we just want to thank you for this
15 opportunity to be here and present the results of our
16 audit. I know we're on a timed agenda, so I'll keep our
17 discussion brief, and then we'll have time for questions
18 after our discussion here.

19 So the scope of our audit was over the financial
20 statements for fiscal year ending June 30, 2018. We just
21 want to remind the Committee that it was management's
22 responsibility to prepare the financial statements in
23 accordance with generally accepted accounting principles,
24 and also to design, implement, and maintain internal
25 controls over financial reporting to provide reasonable

1 assurance that the financial statements were free of
2 material misstatement. And it was our responsibility to
3 design audit procedures to obtain reasonable assurance
4 that those financial statements are free from material
5 misstatement.

6 So as a result of that, and for the first agenda
7 item here, we have three deliverables that we provided for
8 your review. Two of those are audit opinions over the
9 financial statements, and one of them is the report to the
10 Risk and Audit Committee.

11 So the first opinion is the independent auditor's
12 report. And CalPERS' financial statements received an
13 unmodified opinion, which is the highest level of
14 assurance we give on financial statements. So that means
15 that the financial statements were fairly presented. Now,
16 as part of this opinion, I always just want to highlight
17 an other matters paragraph that we have in the opinion.

18 So if you read through the financial statements,
19 you'll see that we do opine on 2018. There is data and a
20 column for 2017. That information for 2017 is at a
21 summary level. And so it doesn't represent a full GAAP
22 presentation that's consistent with CalPERS policy. This
23 paragraph here is consistent with past audit reports. We
24 just wanted to draw your attention to that. In addition,
25 to the 2017 financial statements were audited by other

1 auditors.

2 So the second opinion that we issued was over
3 internal control over financial reporting, which is
4 required under government auditing standards. Happy to
5 report that we did not identify any material weaknesses or
6 significant deficiencies. We do have a couple of
7 observations that we'll discuss in the next agenda item.
8 But like I said, no issues that rose to a significant
9 deficiency or material weakness level.

10 We also opined on compliance with laws and
11 regulations that would have an impact over financial
12 statements. And we noted no instances of noncompliance.

13 So with that, I'll turn the third deliverable
14 over to Bridgette here.

15 MS. GYORFI: Hello. So this is our required
16 communications to you guys. I just wanted to highlight a
17 couple items for you. During the current fiscal year that
18 we're reporting on, CalPERS adopted GASB 75 and did an
19 immaterial correction for GASB 68, which is recording
20 CalPERS' portion of the GASB 68 pension liability and the
21 GASB 75 OPEB liability on the -- or within the financials.
22 So you'll see a new line item on the schedule for that.
23 It's about one billion.

24 That other item I wanted to highlight is we have
25 to communicate our procedures over estimates. So we

1 have our more significant estimates, which include total
2 pension liability, investments at NAV, the IBNR, and the
3 estimated liability for the Long-Term Care, which we have
4 included details in the letter on.

5 And then I also wanted to highlight a couple
6 injuries that we had on our summary of uncorrected audit
7 misstatements, which is attached to the letter. The first
8 one is related to the Q4 alternative investments. They're
9 evaluated -- valued on an estimated amount. And they true
10 it up for the Q4 actuals. And it resulted in a difference
11 that was above our posting threshold, so it's included on
12 that schedule.

13 And then the other one is related to the GASB 75
14 item that I mentioned earlier. So at the time the
15 financials were prepared management estimated the
16 liabilities on the numbers that they had available at the
17 time. And we were waiting for information from the State
18 Controller's Office and State Auditor's Office. When we
19 got the information, management updated their estimate and
20 we had an amount that was above our posting threshold, so
21 it had to be included on our summary of uncorrected audit
22 differences.

23 Then the only other item I wanted to highlight
24 was that we had no disagreements with management.

25 CHAIRPERSON HOLLINGER: Any questions?

1 Seeing no questions.

2 It's an action item. So do I have a motion to
3 approve the independent auditor's report?

4 COMMITTEE MEMBER MATHUR: So moved.

5 VICE CHAIRPERSON SLATON: Second.

6 CHAIRPERSON HOLLINGER: Okay. Moved by Mathur,
7 seconded by Slaton.

8 All in favor?

9 (Ayes.)

10 CHAIRPERSON HOLLINGER: Any opposed?

11 Okay. Motion approved.

12 Okay. 6B, Review of the Independent Auditor's
13 Management Letter.

14 MR. ROMANO: Good afternoon, Madam Chair, members
15 of the Committee. For the record my name is Brock Romano,
16 audit partner at KPMG. I'm going to walk through our
17 management letter comment -- or management letter and its
18 five comments at a high level. If there is some
19 particular comments that the Committee would like to talk
20 more about, would be more than happy to do that.

21 But at a high level, Lisa had mentioned initially
22 that we didn't have -- we didn't identify any material
23 weaknesses or significant deficiencies. Had we -- had we
24 done so, auditing standards would have required that we
25 would have communicated those to you in writing. And they

1 would have been part of the previous action item.

2 What you have before -- what you have before you
3 in a management letter are what we call process
4 improvements. So these are -- these are either minor
5 deficiencies in internal control or opportunities for
6 improvement.

7 I would suggest that none of these items would
8 need the attention of the Risk and Audit Committee at this
9 time, but are more kind of best practice type of comments.
10 And so I've kind of grouped the five comments into three
11 buckets. Two relate to documentation, one is about a
12 non-GAAP policy. It's a best practice for a -- for an
13 entity to identify and document their non-GAAP policies.

14 What Bridgette talked about earlier in our
15 summary of waived adjustments would be -- would be items
16 that would qualify kind of as a non-GAAP policy. And I
17 might have commented that the valuing investments on a
18 quarter lag is what we -- is very common with large
19 pension plans. So nothing unusual there.

20 We also had a comment on accounting position
21 papers. So the Finance and Accounting Office does, what I
22 would call, a best practice, where they document some of
23 their key decisions. And some of those key decisions,
24 since we were new auditors, we looked at both -- both some
25 recent accounting positions and some old ones, and noted

1 that some of them could use updating because accounting
2 rules had changed and/or current presentation might have
3 morphed over time.

4 We also made a suggestion that they focus -- that
5 those position papers focus not just on what decisions
6 were made, but an analysis of the literature and the law
7 in terms of supporting the decisions that were made.

8 We also had a few comments regarding some of the
9 insurance activities at CalPERS, particularly the Health
10 Care Fund and the Long-Term Care Fund, particularly as it
11 relates to third-party administrators and some of the --
12 some of the activity and oversight over those -- over
13 those third parties, including reconciling summary claim
14 data to detail claimed data to -- you know, to ensure the
15 accuracy of items that are reported in the CAFR.

16 You know, we also had some suggestions related to
17 the Health Care Fund in terms of, you know, evidence --
18 evidence -- evidencing the monitoring that they do over
19 those third parties. It was clear to us that there is a
20 robust process for monitoring. Our question was more on
21 the documentation of it.

22 And then also to have the Health Actuary actually
23 make a representation and an assertion to support the
24 year-end IBNR calculation that shows up in the CAFR.

25 And then we have one final comment on census

1 data. So part of -- part of our audit, there's a large
2 component of our audit that deals with member management
3 system and the accumulation of member census data, all key
4 demo -- all key information that goes into the projection
5 of the actuarial estimates that you heard earlier. It's
6 all based on that -- on the collection of that data.

7 And what's not un -- what we saw at CalPERS is
8 not uncommon what we've seen at other large multi-employer
9 pension plans. There's some noise in the collection of
10 that data. We had about 100 data quality issues, gender,
11 data of birth, salary, eligibility items. Again, fairly
12 common for a large multi-employer plan.

13 With that, that's the high level, if you will,
14 for the management letter. I'll pause if there's any
15 particular questions.

16 CHAIRPERSON HOLLINGER: Yeah. First, I want to
17 thank you. And I also wanted to say on some of these
18 recommendations, I know that staff had concurred and we're
19 looking forward to -- we're incorporating them.

20 And so we do have a question.

21 Mr. Costigan.

22 COMMITTEE MEMBER COSTIGAN: Thank you, Madam
23 Chair.

24 I am interested on the my|CalPERS system exactly.
25 What -- walk me through the process. What did you do?

1 Because that data comes from the employer.

2 MR. ROMANO: Sure.

3 COMMITTEE MEMBER COSTIGAN: So when you talk
4 about we recommend the system enhance its existing
5 internal controls. So what are the internal controls that
6 need to be enhanced, because that's different than an
7 employer reporting to us.

8 MR. ROMANO: Sure. So the -- the process -- our
9 process includes going to source documents at the
10 employer. So we selected about 100 rate plans across
11 primarily PERFs B and C. And we made sample selection of
12 active -- active members, where we obtained source
13 documentation, what we call payroll records, from the
14 employer, and then traced that activity as submitted to
15 my|CalPERS. And then -- and then as that data was
16 submitted from my|CalPERS to this census file.

17 And what's common is that pension plans will have
18 routines and controls to accept the data that's submitted
19 to them, and -- but there is a heavy reliance on the data
20 that is submitted to them. And occasionally, data
21 irregularities would exist. Date of birth -- again,
22 examples, date of birth, gender -- gender issues that
23 don't tie back to source documents. They primarily relate
24 to data that was sent to my|CalPERS probably inaccurate
25 from -- to begin with. Then there were some, what I call,

1 data quality issues that dealt with timing. So right
2 around year-end, some employers are not timely in
3 submitting their data.

4 And so eligibility issues could be a -- could be
5 cutoff issues, depending upon when data is submitted. So
6 our recommendation is it's one of vigilance and diligence,
7 right? The process is there's a cost-benefit analysis
8 that I think CalPERS has to go through. Had these results
9 been significantly worse -- worse in the sense that there
10 were more data quality issues, I think we would have had a
11 different conversation.

12 I would classify what I -- what we noticed in
13 this year's audit as fairly common. I don't know if
14 you'll ever get to a zero tolerance with this type of
15 process, given the amount of rate plans and employers.
16 But I think it's our job to go through this exercise, make
17 a conclusion every year that the data is complete and
18 accurate, so you can rely on those actuarial estimates
19 being based on good quality data.

20 And at some point in time, if the data quality
21 issues stay at this level or deteriorate, we may not raise
22 it at a management letter, but I thought it would be
23 something that would be worthwhile in our initial year
24 audit this year with the Committee and with management.

25 COMMITTEE MEMBER COSTIGAN: But you would agree

1 that's an external issue. That's the reporting agency.

2 CHAIRPERSON HOLLINGER: Right, that's not us.

3 MR. ROMANO: It is, but there's a recognition
4 that there's -- it has -- it has the potential to impact
5 total pension liability calculations, and --

6 COMMITTEE MEMBER COSTIGAN: Well, I mean, I guess
7 I would somewhat -- I'm not going to beat a dead horse, I
8 respectfully disagree, in that it is up to the employer to
9 report. We don't have the mechanisms in place to actually
10 enforce the enforcement. Now, if there's a recommendation
11 you'd like to come forward with, I'd like to hear that,
12 other than saying we need to enhance the internal
13 controls, because what I don't necessarily see is what is
14 the internal control that you're recommending we enhance?

15 MR. ROMANO: Sure.

16 COMMITTEE MEMBER COSTIGAN: Thank you, Madam
17 Chair.

18 CHAIRPERSON HOLLINGER: Thank you.

19 Seeing no other questions, and that this is an
20 action item, do I have a motion to approve?

21 COMMITTEE MEMBER MATHUR: So moved.

22 COMMITTEE MEMBER COSTIGAN: Second.

23 CHAIRPERSON HOLLINGER: Moved by Mathur, seconded
24 by Costigan.

25 All in favor?

1 (Ayes.)

2 CHAIRPERSON HOLLINGER: Any opposed?

3 Motion passes.

4 Ms. Chappuie, 6c, the Independent Financial
5 Statement Auditor's Selection.

6 CHIEF AUDITOR CHAPPUIE: Madam Chair, members of
7 the Committee. Beliz Chappuie again.

8 Agenda Item 6c is an action item. Staff is
9 requesting the Risk and Audit Committee to approve and
10 recommend to the Board one of the three options identified
11 by staff as noted in the agenda item to secure the Board's
12 independent financial statement auditor.

13 What's the pleasure of the Committee?

14 CHAIRPERSON HOLLINGER: Well, I have a
15 recommendation to my fellow Board members. And given that
16 there was only one proposal for an RFP, I recommend that
17 we cancel the RFP, and put it out for a rebid in the
18 spirit of vendor participation and competition.

19 Do I have a motion?

20 VICE CHAIRPERSON SLATON: Moved.

21 COMMITTEE MEMBER MATHUR: Second.

22 CHAIRPERSON HOLLINGER: Okay. The motion is
23 moved by Slaton and seconded by Mathur. All those in
24 favor.

25 VICE CHAIRPERSON SLATON: You have discussion.

1 CHAIRPERSON HOLLINGER: Oh, I'm sorry.

2 Mr. Costigan, I apologize.

3 COMMITTEE MEMBER COSTIGAN: I had pushed my
4 microphone to support you. But on the motion, I think
5 this is entirely appropriate. I want to make -- to
6 reiterate this is an open procurement. There is no
7 bias --

8 CHAIRPERSON HOLLINGER: Correct.

9 COMMITTEE MEMBER COSTIGAN: -- or towards the
10 current vendor. And I would certainly hope that by
11 sending this signal, that we will get more people to bid
12 on this. And I will be disappointed if we don't see more
13 than one, and we will have to -- and I would, that that
14 point, have a discussion about reevaluating this entire
15 process. But I fully support the motion. And I
16 appreciate both you, Madam Chair, and the members making
17 the motion. I think it's highly appropriate.

18 Thank you.

19 CHAIRPERSON HOLLINGER: Thank you, Mr. Costigan.

20 Yes. I really hope that this sends a message.

21 So I appreciate that.

22 I believe all those in favor of the motion?

23 (Ayes.)

24 CHAIRPERSON HOLLINGER: Any opposed?

25 Motion passes.

1 So we're onto Item 7, which is information agenda
2 items. 7a, Mr. Grimes, the Enterprise Risk Management
3 Framework Review.

4 (Thereupon an overhead presentation was
5 presented as follows.)

6 CHIEF RISK OFFICER GRIMES: Good afternoon, Madam
7 Chair, Committee members, members of the Board. Thank you
8 for attending. Forrest Grimes, CalPERS team.

9 Today, we're really going to discuss the current
10 state of enterprise risk management efforts here at
11 CalPERS. Highlights include the risk management dashboard
12 that shows the fiscal year 2018-19 enterprise-wide risk
13 assessment outcomes. And those can be found in attachment
14 1.

15 Enterprise risk profiles were updated by
16 cross-functional working groups. And those profiles can
17 be found as Attachment 2 to your agenda item. And the
18 risk heatmap provides -- is provided to show the
19 prioritization of each enterprise risk. And that's
20 Attachment 3.

21 If I could please get you to turn to page 143 of
22 your Board books, I'm hoping that what you see there it
23 looks very much like what's on the screen, if not
24 identical.

25 CHAIRPERSON HOLLINGER: Right. Got it.

1 CHIEF RISK OFFICER GRIMES: You can see really
2 from this dashboard that information security, governance
3 and control environment, talent management and benefit
4 administration remain the same as in the prior year.

5 Business continuity, pension funding, and health
6 care administration scores decreased in probability this
7 year. And stakeholder con -- the stakeholder confidence
8 score increased in probability slightly this year.

9 So before I continue, I would like to stop on
10 this graphic, this page to make sure that you don't have
11 any questions on any of the enterprise risks and how these
12 were arrived at.

13 CHAIRPERSON HOLLINGER: Yeah. First, I just want
14 to commend you and staff on the decrease in those risk
15 scores. And it's -- all your efforts are appreciated, and
16 actually quantified. So thank you.

17 Ms. Mathur.

18 COMMITTEE MEMBER MATHUR: Yeah. I -- well, I
19 would echo those comments, but I also wanted to ask a
20 question. Because each of the risk statements is in the
21 form of sort of a negative statement that a failure to do
22 something, or a lack of something, or an inability to do
23 something could result in tease negative consequences.

24 CHIEF RISK OFFICER GRIMES: Yes.

25 COMMITTEE MEMBER MATHUR: And I guess I wonder if

1 it's -- if we -- if a -- if that's -- if that's the
2 standard in the industry? If that's -- if there's a
3 reason for stating them in a negative fashion, or if
4 stating them in a more positive fashion, like that
5 recovering timely and resuming business functions
6 following a business interruption event could -- you know,
7 would -- you know, creates confidence in the CalPERS
8 system or something. I don't know if there's a positive
9 way to state them. But maybe it's the standard and that's
10 the way it should be.

11 CHIEF RISK OFFICER GRIMES: That's a great
12 question. And so it's -- you know, we can certainly
13 discuss that. But I would say that it is standard in the
14 risk industry to state risk statements in the negative.
15 And if you kind of think about it, this goes back to the
16 June item. And then I think it was the September item
17 when we were talking about the strategic risk measures,
18 and then the strategic risk tolerances.

19 Now, we're intending to integrate those into the
20 enterprise reporting structure that you're very familiar
21 with, so that they complement them. And put in that
22 light, I think that I would say that the -- that risk is
23 really the Darth Vader of performance, or the Dark Side of
24 the performance equation. And so truly these are things
25 that you hope don't happen.

1 COMMITTEE MEMBER MATHUR: Sure.

2 CHIEF RISK OFFICER GRIMES: And so when stated
3 like in the affirmative negative fashion, it's really
4 saying, hey, what would happen if like this really
5 occurred?

6 COMMITTEE MEMBER MATHUR: Right.

7 CHIEF RISK OFFICER GRIMES: And it's really a
8 negative performance, so that's why they're written that
9 way, but I certainly understand your comment.

10 COMMITTEE MEMBER MATHUR: I guess I'm
11 wondering -- and maybe a better example is the new -- the
12 new one that was drafted for governance and control
13 environment. It states lack of a strong internal control
14 environment could result in increased noncompliance, et
15 cetera, et cetera. And I guess I was wondering as I was
16 reading that if we -- if it would be better to say
17 existence of a strong internal control environment could
18 avoid increased noncompliance, et cetera, et cetera, et
19 cetera.

20 And I only pose it for consideration. It's not
21 something that I'm necessarily suggesting we change today.
22 But ultimately the whole point of us assessing risks is to
23 try to avoid those risks from manifesting.

24 CHIEF RISK OFFICER GRIMES: Yes.

25 COMMITTEE MEMBER MATHUR: And maybe that's

1 embedding the mitigation in the risk statement. I don't
2 know. Perhaps it's -- perhaps this is all much ado about
3 nothing, but --

4 CHIEF RISK OFFICER GRIMES: Well, I mean, we'll
5 certainly give it some thought. I mean, you know, the
6 risk team likes a challenge, so we'll bring some things
7 back --

8 (Laughter.)

9 CHIEF RISK OFFICER GRIMES: -- and we'll see --

10 (Laughter.)

11 CHIEF RISK OFFICER GRIMES: -- we'll see what the
12 Committee thinks. You know, we will. We'll take a look
13 at that and see if we can actually -- I think that if
14 you -- you know, you look at the risk profiles, you can
15 see that if you looked at last year versus this year, you
16 can really see kind of a streamlining and really trying to
17 refine our language, so that each of them read very
18 similarly.

19 And so certainly at the very start of this whole
20 process, you know, several years ago, I really kind of
21 suggested this would be an iterative process. And I think
22 it continues to be and will be throughout time. So that's
23 a great suggestion, and we'll take a look.

24 COMMITTEE MEMBER MATHUR: Thanks.

25 CHAIRPERSON HOLLINGER: I think from my

1 experience in the industry, in terms of risk, people
2 respond better to pain.

3 (Laughter.)

4 CHAIRPERSON HOLLINGER: It forces them to take
5 action, whereas...

6 (Laughter.)

7 CHAIRPERSON HOLLINGER: Okay. Mr. Miller.

8 BOARD MEMBER MILLER: Just a little quick comment
9 on that as well. I think the way people generally
10 approach risk and think about it is in terms of
11 consequence --

12 CHAIRPERSON HOLLINGER: Right.

13 BOARD MEMBER MILLER: -- in terms of adverse
14 consequence and probability. Whether it's failure modes
15 of a process or whether it -- it's not really focused on
16 that upside when things -- it's for those -- especially
17 those low-frequency, high-consequence events. I think
18 it's framed this way in this kind of lexicon to really
19 emphasize that. That this is about mitigating against
20 those adverse versus your normal operational improvements,
21 et cetera.

22 CHAIRPERSON HOLLINGER: Thank you.

23 Seeing no further questions, this was an
24 information item.

25 CHIEF RISK OFFICER GRIMES: Can -- I do have one

1 other topic --

2 CHAIRPERSON HOLLINGER: Oh, I'm sorry.

3 CHIEF RISK OFFICER GRIMES: -- if you have time?

4 CHAIRPERSON HOLLINGER: Oh, yeah. No, we're
5 fine.

6 CHIEF RISK OFFICER GRIMES: Okay. And, Mr.
7 Miller, that was our intent. And certainly Ms. Mathur
8 we'll take your comments into consideration as well, and
9 we'll come back and really scrutinize those. But that
10 truly was the intent, as Mr. Miller stated.

11 If you could turn to page 160 of the Board books,
12 please. This will be quick and my final item.

13 You can see that this is really the heatmap.
14 It's been updated to reflect the scores that occurred this
15 year as a result of the risk assessment. You can see the
16 impact to CalPERS as represented on the Y axis, with the
17 probability being represented on the X axis. And
18 velocity, which is really more easily thought of as the
19 speed of onset of an occurrence, is represented by the
20 size of the bubble.

21 And so you can see that really we have -- what
22 this really is intended to do is to start -- have the
23 organization really take a look at how should we be
24 responding to these risks, and what kinds of resources
25 should we be assigning to these risks.

1 So that's really the intent of this. I think
2 that, you know, as we proceed into the next year, the next
3 steps will be coming back to you in February of 2019 to
4 really propose a reporting format and structure to you to
5 really kind of take the risk measures into the more
6 dashboard kind of reporting, like you're used to seeing
7 with enterprise performance reporting at this point. And
8 that will really start to fully integrate performance and
9 risk into the conversations that we have to -- in our
10 decision making.

11 And I think really that's the endgame and that's
12 the goal. So I think this year will be a really great
13 year.

14 With that, I'm going to turn it back to you,
15 Madam Chair.

16 CHAIRPERSON HOLLINGER: Okay. Thank you. And
17 one of the things I may have suggested for one of our
18 board retreats - it doesn't right now - but how we would
19 respond or maybe we need to go through a mock cyber
20 attack. You know, just something to put on the calendar.

21 CHIEF RISK OFFICER GRIMES: Like a tabletop or
22 something like that.

23 CHAIRPERSON HOLLINGER: Right, exactly. Yeah.
24 Okay. And seeing no further questions.

25 Ms. D'Adamo, Summary of Committee Direction.

1 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

2 Well, the only direction, if there is one, would
3 be related to the risk statement. And I'm not sure, based
4 on the discussion, if there was one.

5 (Laughter.)

6 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So
7 I'm happy to -- no. Okay. I didn't think so, but I
8 just -- that was the only one that I potentially recorded.

9 CHAIRPERSON HOLLINGER: Right. And the rebid,
10 but, --

11 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
12 Yeah. Well, that's an action time.

13 CHAIRPERSON HOLLINGER: Right. But that's --
14 okay.

15 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
16 That's not a summary of committee direction.

17 CHAIRPERSON HOLLINGER: Okay. Seeing no --
18 anyone to speak? No.

19 Okay. Then we're going into closed session at
20 3:20. The Risk and Audit open session is adjourned.

21 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
22 Thank you.

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(Thereupon the California Public Employees'
Retirement System, Board of Administration,
Risk & Audit Committee open session
meeting adjourned at 3:16 p.m.)

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

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 19th day of November, 2018.

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