

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, FEBRUARY 20, 2019

2:06 P.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
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A P P E A R A N C E S

COMMITTEE MEMBERS:

Ms. Dana Hollinger, Chairperson

Mr. David Miller, Vice Chairperson

Ms. Margaret Brown

Ms. Fiona Ma, represented by Mr. Frank Ruffino

Mr. Bill Slaton

Ms. Betty Yee, represented by Ms. Lynn Paquin

BOARD MEMBERS:

Ms. Adria Jenkins-Jones

Mr. Henry Jones, President

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:

Mr. Russ Ahlers, BDO

Ms. Lisa Avis, KPMG

Mr. Seth Blackman, KPMG

A P P E A R A N C E S C O N T I N U E D

ALSO PRESENT:

Ms. Catherine Daubek, Deloitte & Touche

Mr. Michael de Leon, Deloitte & Touche

Mr. Jim Doyle, BDO

Mr. Steve Eisenstein, KPMG

Mr. Jason Franken, CliftonLarsonAllen

Ms. Bridgette Gyorfi, KPMG

Mr. Keith Hammond, BDO

Mr. Kevin Karo, BDO

Mr. Packy Kelly, KPMG

Ms. Sylvia Mak, BDO

Mr. Peter Mann, Deloitte & Touche

Mr. Richard McCleary, BDO

Mr. James Melcher, Deloitte & Touche

Mr. Tim Mundy, Deloitte & Touche

Mr. Jason Ostroski, CliftonLarsonAllen

Mr. Vishnu Patwari, BDO

Mr. Julie Quinn, Deloitte & Touche

Mr. Thomas Rey, CliftonLarsonAllen

Mr. Brock Romano, KPMG

Mr. Randy Romes, CliftonLarsonAllen

Mr. Ryan Merryman, CliftonLarsonAllen

Mr. Randy Tanaka, BDO

Ms. Brianne Wiese, KPMG

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P R O C E E D I N G S

CHAIRPERSON HOLLINGER: Okay. Good afternoon.
The Risk and Audit Committee has come to order.

First call of business is roll call.

COMMITTEE SECRETARY LEWIS: Dana Hollinger?

CHAIRPERSON HOLLINGER: Here.

COMMITTEE SECRETARY LEWIS: Margaret Brown?

COMMITTEE MEMBER BROWN: Here.

COMMITTEE SECRETARY LEWIS: Frank Ruffino for
Fiona Ma?

VICE CHAIRPERSON SLATON: He's on his way.

COMMITTEE SECRETARY LEWIS: David Miller?

COMMITTEE MEMBER MILLER: Here.

COMMITTEE SECRETARY LEWIS: Jason Perez?

CHAIRPERSON HOLLINGER: Excused.

COMMITTEE SECRETARY LEWIS: Bill Slaton?

VICE CHAIRPERSON SLATON: Here.

COMMITTEE SECRETARY LEWIS: Lynn Paquin for Betty
Yee?

ACTING COMMITTEE MEMBER PAQUIN: Here.

CHAIRPERSON HOLLINGER: Great.

The first order of business is the election of
the Risk and Audit Committee Chair and Vice Chair. And
With that, I'm going to turn it over to Bill Slaton.

VICE CHAIRPERSON SLATON: All right. We'll have

1 the Risk and Audit Committee will open for nominations for
2 Chair. And I'll call on Mr. Miller.

3 COMMITTEE MEMBER MILLER: Thank you.

4 It's my pleasure to nominate Dana Hollinger for
5 Chair of the Committee.

6 VICE CHAIRPERSON SLATON: So Ms. Hollinger has
7 been nominated for Chair of the Risk and Audit Committee.

8 Are there any further nominations?

9 Any further nominations?

10 Final time, any further nominations?

11 Hearing no response, Nominations are closed.

12 I'll entertain a motion to elect Dana Hollinger
13 as Chair by acclamation.

14 Do I have a motion?

15 COMMITTEE MEMBER BROWN: Motion

16 VICE CHAIRPERSON SLATON: Moved by Brown.

17 ACTING COMMITTEE MEMBER PAQUIN: Second.

18 VICE CHAIRPERSON SLATON: Second by Ms. Paquin.

19 All in favor say aye?

20 (Ayes.)

21 CHAIRPERSON HOLLINGER: Opposed?

22 Motion carries. Congratulations.

23 CHAIRPERSON HOLLINGER: Thank you very much.

24 Thank you.

25 (Applause.)

1 CHAIRPERSON HOLLINGER: Okay. And now for the
2 election of Vice Chair for the Risk and Audit Committee.
3 Do I have a motion?

4 VICE CHAIRPERSON SLATON: Yes.

5 CHAIRPERSON HOLLINGER: Mr. Slaton.

6 VICE CHAIRPERSON SLATON: I nominate David --

7 CHAIRPERSON HOLLINGER: Go ahead.

8 VICE CHAIRPERSON SLATON: I nominate David Miller
9 as -- for Vice Chair for this Committee.

10 CHAIRPERSON HOLLINGER: Okay. Thank you.

11 Do I have any other motions?

12 Again, do I have any other motions?

13 Third time, any other motions?

14 I move to -- can I have a motion for David Miller
15 as Vice Chair of Risk and Audit?

16 COMMITTEE MEMBER BROWN: So moved.

17 VICE CHAIRPERSON SLATON: Second.

18 CHAIRPERSON HOLLINGER: Okay. Moved By Brown,
19 seconded by Slaton.

20 Congratulations.

21 VICE CHAIRPERSON SLATON: Gotta have a vote.

22 COMMITTEE MEMBER BROWN: Gotta have.

23 CHAIRPERSON HOLLINGER: Oh. Can we have a vote
24 for David Miller. All those in favor?

25 (Ayes.)

1 CHAIRPERSON HOLLINGER: Congratulations.

2 (Applause.)

3 CHAIRPERSON HOLLINGER: So we'll just take a
4 minute to move the chairs.

5 Okay. Are we good, Pam?

6 MS. HOPPER: Almost.

7 CHAIRPERSON HOLLINGER: Welcome.

8 The next order of business is the approval of the
9 February 20th, 2019 Risk and Audit Committee timed agenda.

10 Do I have a motion for approval?

11 COMMITTEE MEMBER BROWN: Move approval.

12 VICE CHAIRPERSON MILLER: Second.

13 CHAIRPERSON HOLLINGER: Okay. Moved by Brown,
14 seconded by Miller.

15 All those in favor?

16 (Ayes.)

17 CHAIRPERSON HOLLINGER: Okay. Motion is forward.

18 I'm sorry.

19 Yes.

20 ACTING COMMITTEE MEMBER RUFFINO: Madam Chair,
21 can I abstain on that, please?

22 CHAIRPERSON HOLLINGER: Yes.

23 ACTING COMMITTEE MEMBER RUFFINO: Thank you.

24 CHAIRPERSON HOLLINGER: Please note for the
25 record that Mr. Ruffino has abstained.

1 Okay. Next item, Agenda Item 4, is the Executive
2 Report. Ms. Ms. Timberlake D'Adamo.

3 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

4 Thank you. Good afternoon, Madam Chair and
5 Committee members. Marlene Timberlake D'Adam, CalPERS
6 team member.

7 First, I'd like to congratulate Ms. Hollinger and
8 Mr. Miller on their new positions as Chair and Vice Chair
9 of the Risk and Audit Committee. I'd also like to welcome
10 Fiona ma and Mr. Ruffino as her delegate, and Mr. Perez to
11 the Committee. I look forward to working with all of you
12 in the future.

13 In November, the Committee instructed the staff
14 to re-issue the RFP for the independent financial
15 statement auditor for the next five years. Today, the
16 Committee will interview and score the four finalists,
17 and, if appropriate, select a final firm that will be
18 awarded the contract.

19 We will also be presenting the mid-year plans for
20 Enterprise Compliance and Enterprise Risk Management.
21 Both mid-year plans will provide updates on activities
22 completed in the first half of the fiscal year 2018-2019.

23 The next Risk and Audit Committee meeting is
24 scheduled for June 18th, 2019, and includes the annual
25 plans for Enterprise Risk Management, Enterprise

1 Compliance, and the Office of Audit Services, the
2 independent auditor's annual plan, third-party valuation
3 and certification of the contracting public agency plans,
4 and the semiannual enterprise risk framework review.

5 Thank you, Madam Chair. This concludes my
6 report, and I'd be happy to take any questions.

7 CHAIRPERSON HOLLINGER: Seeing no questions.

8 Let's move on to Item 5, the action consent
9 items.

10 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So
11 the first item is the approval of the minutes for the
12 November 14th, 2018 meeting.

13 CHAIRPERSON HOLLINGER: Okay. Since this is an
14 action item, do I have a motion for approval of the
15 November 14th, 2018 Risk --

16 VICE CHAIRPERSON MILLER: So moved.

17 CHAIRPERSON HOLLINGER: Okay. Moved by Miller.

18 COMMITTEE MEMBER BROWN: Second.

19 CHAIRPERSON HOLLINGER: Second by Brown.

20 All those in favor?

21 (Ayes.)

22 CHAIRPERSON HOLLINGER: Okay. Moved --

23 ACTING COMMITTEE MEMBER RUFFINO: Abstain.

24 CHAIRPERSON HOLLINGER: Oh, abstain by Mr.

25 Ruffino.

1 Okay. Motion moves forward.

2 5b, Review of the Risk and Audit Committee
3 Delegation. Ms. D'Adamo.

4 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

5 Yes. This is the annual item to review and
6 approve the Committee's delegation. The delegation is
7 before you and it has not changed since last year.

8 CHAIRPERSON HOLLINGER: Okay. And on Item 6,
9 which is our information consent item --

10 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: You
11 have to approve it.

12 CHAIRPERSON HOLLINGER: Oh, I'm sorry. The --
13 okay. So a motion to approve the review of the Risk and
14 Audit Committee delegations. Do I have a motion to
15 approve?

16 VICE CHAIRPERSON MILLER: So moved.

17 CHAIRPERSON HOLLINGER: Okay. Moved by Miller.

18 ACTING COMMITTEE MEMBER PAQUIN: Second.

19 CHAIRPERSON HOLLINGER: Second by Ms. Paquin.

20 All those in favor?

21 (Ayes.)

22 CHAIRPERSON HOLLINGER: Okay.

23 Motion -- Mr. Ruffino, are --

24 ACTING COMMITTEE MEMBER RUFFINO: Aye.

25 CHAIRPERSON HOLLINGER: Oh, aye. Okay. All

1 the -- okay. So motion moves forward.

2 On Item 6, our information consent items, I
3 haven't been asked to pull anything on the calendar.

4 So then we can move on to Item 7, which are the
5 action agenda items. And it's the finalist interviews for
6 the independent financial statement auditor.

7 And with that, I'll call on Ms. Chappuie.

8 CHIEF AUDITOR CHAPPUIE: Beliz Chappuie, Office
9 of Audit Services.

10 Madam Chair, I'll have you --

11 CHAIRPERSON HOLLINGER: Can you speak a little
12 louder? It's hard to hear.

13 CHIEF AUDITOR CHAPPUIE: Sure. I'll have you
14 start with introductions, and then I'll read my portion of
15 it, please.

16 CHAIRPERSON HOLLINGER: Okay. So today, the Risk
17 and Audit Committee is interviewing the finalists for the
18 independent financial statement auditor, that's the
19 Request for Proposal number 2018-8556.

20 Committee members, in accordance with the RFP,
21 we, as a group, will determine an interview score for each
22 finalist, and make a motion to adopt the interview score
23 with a maximum of 700 points.

24 At this time, I would like to ask Mr. Chappuie,
25 Chief Auditor, to provide a summary of the RFP activities

1 to date, and the logistics of the interview process.

2 CHIEF AUDITOR CHAPPUIE: Thank you, Madam Chair.

3 The CalPERS Board of Administration has delegated
4 to this Committee the authority to conduct the selection
5 of Board's independent financial statement auditor and to
6 recommend the finalist to the Board.

7 On November 28th, 2018, CalPERS released RFP
8 number 2018-8556 to seek additional vendor participation
9 to perform audits of CalPERS financial statements for
10 fiscal years 2018 through '19 -- 2018-19 through 2022-23.

11 CalPERS received five proposals by the final
12 filing date of January 14th, 2019. Four of the proposals
13 passed the technical proposal evaluations and had their
14 fee proposals opened and scored.

15 All four finalists BDO CliftonLarsonAllen,
16 Deloitte and Touche, and KPMG were invited to -- invited
17 for the oral interviews as scheduled today.

18 I would like to take the time to update the
19 Committee on the preliminary total scores of the firms
20 based on the highest to lowest scores. CliftonLarsonAllen
21 received 300 points for the -- for their fee proposal
22 score, and 50 points for committing to participate in the
23 DVBE preference program for a preliminary total score of
24 350 points.

25 BDO received 236 points for their fee proposal

1 score and 30 points for committing to participate in the
2 DVBE preference program for a total -- for a preliminary
3 total score of 266 points.

4 Deloitte and Touche received 181 points for their
5 fee proposal score and 30 points for committing to
6 participate in the DVBE preference program for a
7 preliminary total score of 2 -- 211 points.

8 KPMG received 172 points for their fee proposal
9 score and 30 points for committing to participate in the
10 DVBE preference program for a preliminary total score of
11 202 points.

12 Each finalist will be allotted 30 minutes for the
13 interview, 10 minutes for presentation and 20 minutes for
14 questions and answers. All finalists should be asked the
15 same questions. Time permitting, Committee members may
16 ask up to three clarification questions as needed.

17 At the conclusion of the interviews, the
18 Committee will determine an interview score as a group for
19 each finalist and motion the interview scores. The
20 interview scores will be collected and combined with the
21 preliminary total scores to determine a total score for
22 each finalist.

23 The Committee will then be asked to make a motion
24 recommending the Board award the contract to the finalist
25 with the highest total score subject to final negotiations

1 and satisfaction of all requirements.

2 At this time, I would like to remind the
3 finalists that each of your firms signed and submitted the
4 CalPERS full Board of Administration interview form with
5 the proposal. This form represents a pledge that each of
6 you will not make any attempt to listen to or watch the
7 interviews with the other finalist, nor have anyone do so
8 on your behalf. Failure to adhere to this requirement
9 will result in your firm's disqualification from this
10 engagement.

11 Thank you, Madam Chair.

12 CHAIRPERSON HOLLINGER: Thank you, Ms. Chappuie,
13 for the overview. I want to remind the Committee that
14 once we start, please stay through the entire interview
15 process. I would now ask that the roll be taken so that
16 the record reflects the Committee members present and
17 participating in the interview and selection process for
18 this contract.

19 Roll call.

20 COMMITTEE SECRETARY LEWIS: Dana Hollinger.

21 CHAIRPERSON HOLLINGER: Here.

22 COMMITTEE SECRETARY LEWIS: Margaret Brown?

23 COMMITTEE MEMBER BROWN: Here.

24 COMMITTEE SECRETARY LEWIS: Frank Ruffino?

25 ACTING COMMITTEE MEMBER RUFFINO: Here.

1 COMMITTEE SECRETARY LEWIS: David Miller?

2 VICE CHAIRPERSON MILLER: Here.

3 COMMITTEE SECRETARY LEWIS: Jason Perez?

4 CHAIRPERSON HOLLINGER: Excused.

5 COMMITTEE SECRETARY LEWIS: Bill Slaton?

6 COMMITTEE MEMBER SLATON: Here.

7 COMMITTEE SECRETARY LEWIS: Lynn Paquin for Betty
8 Yee?

9 ACTING COMMITTEE MEMBER PAQUIN: Here.

10 CHAIRPERSON HOLLINGER: Great. We will now
11 conduct the interviews in alphabetical order, BDA -- BDO
12 U.S.A. LLP will be first; CliftonLarsonAllen, LLP will be
13 second; Deloitte and Touche, LLP will be third; and, KPMG
14 LLP will be the last interview.

15 Each finalist will have 10 minutes for a
16 presentation and 20 minutes for a question and answer
17 period. The clock located in front will show you the time
18 remaining in each segment. Committee members, please note
19 that the questions we can ask all finalists are included
20 in Item 2 of the finalist interview packet. Scores will
21 be determined as a group after all the finalists have been
22 interviewed. A score will be motioned for discussion and
23 then seconded, and voted upon, or a substitute motion will
24 be made. Discussion of scores should only be done via
25 motion.

1 Does anyone have any questions?

2 COMMITTEE MEMBER BROWN: Yes, Madam Chair.

3 CHAIRPERSON HOLLINGER: Ms. --

4 COMMITTEE MEMBER BROWN: Can we just take a
5 moment. He needs to get his binder.

6 CHAIRPERSON HOLLINGER: Oh, sure, of course.

7 COMMITTEE MEMBER BROWN: Thank you.

8 CHAIRPERSON HOLLINGER: Okay. One sec.

9 Just one sec.

10 Okay. Great. If there are no questions at this
11 point, we will now begin the interviews. So I would like
12 to invite all representatives of BDO U.S.A. to come
13 forward, please be seated right here in this front row
14 section, and ask CliftonLarsonAllen, Deloitte and KPMG and
15 all their representatives to please leave the auditorium.

16 Good afternoon. And I want to thank you all for
17 your time and for being here. You will have 10 minutes to
18 do your presentation. We will start the clock as soon as
19 you begin to speak. And I think from your vantage point,
20 you'll be able to see it here. We have it there.

21 At the end of 10 minutes, there will be a
22 question and answer, so feel free to begin when you're
23 comfortable.

24 Okay. And all of you, just so you know, before
25 you, there is a little button to press that should connect

1 your mic so you can tell when they're on, because there
2 will be a red light.

3 Go ahead.

4 MR. DOYLE: Thank you, Madam Chair and Committee
5 members, and good afternoon, everyone else. We'd like to
6 thank the opportunity to be here today.

7 We also want to express our excitement for the
8 opportunity to serve both the Board and the stakeholders
9 of CalPERS.

10 My name is --

11 CHAIRPERSON HOLLINGER: Yes, your name.

12 MR. DOYLE: My name is Jim Doyle. I'm an audit
13 partner at -- within BDO and I am proposed as the lead
14 engagement partner.

15 Excuse me.

16 CHAIRPERSON HOLLINGER: Thank you.

17 MR. DOYLE: I've work with -- sorry -- worked
18 with -- in public accounting for most of my career,
19 spanning roughly about 26 years. In that time, I've
20 worked on a variety of benefit plans, worked with
21 governmental entities throughout, and currently, for the
22 past few years, have been serving as the lead engagement
23 partner on the State of Delaware's pension system as well.

24 With me today are a few of my colleagues, some of
25 which specialize in various industries -- or various

1 practices areas - excuse me - that we -- where we keep
2 play -- performing key roles within the engagement itself.

3 At this time, I'd like them to take a few moments
4 to speak about themselves and their role and their
5 involvement.

6 Keith

7 MR. HAMMOND: Thank you. Keith Hammond, an audit
8 partner with BDO.

9 Since 2005, I've spent my career in the State and
10 local government space auditing primarily pension plans,
11 OPEB plans, investment authorities, financing authorities
12 and the like.

13 In addition to helping Jim on the audit of State
14 of Delaware's pension system and OPEB plans, I also serve
15 some of other -- some of BDO's other multi-billion dollar
16 clients, including Territory Government of the Virgin
17 Islands, City of Houston, City of San Antonio, some State
18 of Alaska agencies.

19 Because of that experience, I'm proposed as the
20 engagement quality control reviewer. And really what that
21 is is a second set of eyes to make sure that the team is
22 appropriately addressing and identifying risks related to
23 CalPERS.

24 In addition to the client service work, I also
25 work with a number of members out of our national

1 government practice, and many of whom serve on committees
2 in the AICPA and the GFOA in order to develop internal
3 trainings to ensure that our professionals are quality
4 trained in the government auditing arena, and also develop
5 trainings for our clients as well.

6 MR. KARO: Good afternoon, I'm Kevin Karo. I'm
7 the west region leader of the audit practice for BDO. And
8 I'm here today to not only support Keith and Jim in their
9 role as the engagement leaders for this, but also express
10 our appreciation and thanks for allowing us the
11 opportunity to do the proposal and be invited back to
12 present today.

13 CalPERS is definitely a priority client
14 considered for our firm, not only in the region, but also
15 nationally as the firm you are. And that's why I'm
16 involved in this engagement from the standpoint of support
17 to ensure the resources that are needed from our west
18 region are being dedicated to the project.

19 We have 10 offices here in the west, five of them
20 are located in California. The two largest in San
21 Francisco -- we'll say the Bay Area, San Francisco and San
22 Jose, and Los Angeles.

23 So that is my role here and we appreciate you
24 inviting us.

25 MR. AHLERS: Good afternoon, everyone. My name

1 is Russ Ahlers. I'm the Chief Information Officer for
2 BDO. I've been in technology for 25 years -- or almost 25
3 years. In my role as the firm's CIO, I'm responsible for
4 delivering technology services to not only the firm, but
5 also to client engagement teams such as this one.

6 And it would be my responsibility to ensure
7 that -- not only that the -- that the team has the right
8 tools and services, but the data and systems stay secure
9 as the buck stops with me from that standpoint.

10 Thank you.

11 MS. MAK: Good afternoon, I'm Sylvia Mak. I'm an
12 audit director based out of our San Francisco office. I
13 currently lead our Bay Area benefit plan practice. And I
14 have over 16 years of experience in the plan area. I
15 currently serve as director on the Permanente Medical
16 Group plans, that consist of a variety of defined
17 contribution plans with assets in the billions, as well as
18 health and welfare plans.

19 My responsibility as it relates to CalPERS would
20 be to coordinate, supervise, and organize the day-to-day
21 activities of the engagement team that would be assigned.

22 MR. PATWARI: Hello, everyone. I'm Vishnu
23 Patwari. I'm the audit partner in the Bay Area asset
24 management practice. And we do -- we serve 120 plus
25 private managers, fund managers with multiple strategies.

1 I have 15 years of experience serving complex fund
2 clients, ranging from start-ups to multi-billion asset
3 managers. During this tenure, I have a wide range of
4 experience in different investment strategies and
5 structures, including private equity and venture capital,
6 global equities and fixed Income products, derivatives,
7 and fund of funds.

8 Some of my representative clients are or have
9 included Oak Tree Capital, Western Asset Management, and
10 Silver Lake Partners.

11 On CalPERS, I've been assigned the role of
12 subject matter expert on investment testing, including
13 fair value of investments.

14 Thank you.

15 MS. TANAKA: Good afternoon. My name is Randy
16 Tanaka. I'm the IS assurance partner for the western
17 region. My role is to look at the IT systems and the
18 corresponding controls around them. I started my career
19 about 25 years ago doing securities, so I have a unique
20 skill set. And I'm able to distinguish security from
21 cybersecurity from audit risks. Sorry, Rich.

22 MR. McCLEARY: Good afternoon. My name is
23 Richard McCleary and I'm the managing director of
24 actuarial services at BDO. My team is responsible for
25 conducting the expert reviews for the pension and OPEB

1 plans that BDO audits. Because of the number of plans and
2 the complexity and the size of the plans, BDO has made a
3 commitment to have its own in-house actuarial staff, and
4 is committed to growing that. Some of the clients that we
5 serve -- some of the multi-billion dollar clients we serve
6 are the State of Delaware, State of Alaska, and some
7 others include the City of Houston and the City of Dallas
8 Police and Fire.

9 MR. DOYLE: Just to kind of conclude a little bit
10 here. Just we are committed to audit quality and timely
11 delivery of the audit to meet or exceed your expectations.
12 As a national firm, as you can tell, we have a significant
13 amount resources to bring -- to bear, including many
14 professionals who specialist in given areas that would
15 align with CalPERS.

16 But I really want to emphasize that even though
17 we're a national firm, we very much operate in a very much
18 like a team environment, with one common goal of
19 excellence towards client service. Simply put, we feel
20 we're very well equipped to work with an entity as
21 significant and prestigious as CalPERS, and are committed
22 to delivering the greatest quality audit.

23 Thank you.

24 CHAIRPERSON HOLLINGER: Do you want to take your
25 additional two minutes or are you...

1 MR. KARO: We would actually want to hear from
2 you and the questions you had, so we wanted to make sure
3 we had plenty of time for that

4 CHAIRPERSON HOLLINGER: Okay.

5 COMMITTEE MEMBER BROWN: Madam Chair, could I
6 just -- I don't know who the CIO is? I mean, I didn't get
7 his name, because I didn't see him on the list.

8 CHAIRPERSON HOLLINGER: Microphone, Margaret.

9 MR. AHLERS: My name is Russ Ahlers.

10 COMMITTEE MEMBER BROWN: Okay. And you're not on
11 our list, right?

12 MR. AHLERS: No, I --

13 COMMITTEE MEMBER BROWN: Is he?

14 MR. AHLERS: I should be.

15 COMMITTEE MEMBER BROWN: Okay.

16 MR. AHLERS: Ahlers, A-h-l-e-r-s, Chief
17 Information Officer.

18 CHAIRPERSON HOLLINGER: That's okay. Do you have
19 a question, Margaret?

20 COMMITTEE MEMBER BROWN: Oh, yeah. No, was I
21 just checking -- checking off who was here. Thank you.

22 CHAIRPERSON HOLLINGER: Well, I guess I'll start
23 initially. One of the things that concerns me today in
24 looking at the financial profile of companies we invest in
25 are these off-balance sheet items that can impact a

1 company's financial reality. So to one extent or what
2 measures do you go to to make sure that those items are
3 factored in?

4 MR. PATWARI: So, you know, as we go through your
5 investment profile and management and investment profile,
6 you know, how -- where -- where the management intend to
7 invest and what type of investment, you know, underlying
8 managers are investing in. As, you know, we -- as part of
9 the inquiry procedures, we'll go through all the
10 off-balance sheet items. We'll, you know, go through in
11 details in terms of understanding those items, whether
12 those off-balance sheet items need to be booked in the --
13 on the financial statements.

14 CHAIRPERSON HOLLINGER: Okay. Thank you.

15 And hold on one sec. Mr. Slaton.

16 COMMITTEE MEMBER SLATON: Thank you, Madam Chair.

17 I believe that your proposal stated that the
18 principal engagement partner is currently obtaining a
19 California CPA license. Is that true, and if so, what's
20 the status of that?

21 MR. DOYLE: Yes, I do have a -- I care an active
22 California license.

23 COMMITTEE MEMBER SLATON: Okay. And if I -- you
24 don't mind if I ask one more question.

25 CHAIRPERSON HOLLINGER: No, go ahead.

1 COMMITTEE MEMBER SLATON: So your proposal also
2 states that you don't have an office in Sacramento. So
3 can you comment on how you plan to ensure the firm's
4 presence and availability at our headquarters here.

5 MR. KARO: Yeah. That's -- that's one of my
6 responsibilities as being the regional leader for the
7 audit practice. We primarily -- the staffing would come
8 out of our Bay Area offices, San Francisco and San Jose.

9 I work with the two office managing partners
10 there, and we -- I make sure the dedicated resources are
11 there. One of the other advantages we have on resources,
12 which we look at not just location, but expertise, and
13 that's why the team that we've assembled are not all from
14 California. We want to bring the right people to the
15 table. And having over a thousand employees here in the
16 west region, we can pick from the right people to be --
17 participate on the engagement as well.

18 COMMITTEE MEMBER SLATON: Okay. Thank you.

19 CHAIRPERSON HOLLINGER: Okay. Ms. Paquin for
20 Betty Yee.

21 COMMITTEE MEMBER YEE: Thank you.

22 Could you please explain your proposed fees and
23 your rationale for allocating staff hours across all five
24 years of the contract?

25 MR. HAMMOND: So when we go to budget the

1 engagement, as you know, we weren't given an opportunity
2 to ask detailed questions or meet with any of the CalPERS
3 staff. So we had to really go after the public
4 information that's available, the financial statements,
5 things of that nature. And basing that on our other
6 clients and adjusting for size and scope of CalPERS, we
7 came up with what we felt was a reasonable level of
8 effort, so the hours, and we adjusted those to -- you
9 know, there's some administrative type hours when you
10 start up an audit.

11 But, you know, we -- we normalized that and
12 really adjusted for things that we thought may impact on a
13 year-to-year basis, such as, you know, maybe the year that
14 you have an experience study update. There's going to be
15 heavier actuarial hours or a year of leasing standard
16 implementation, there's going to be some review of that.

17 So we -- you know, we tried to take a holistic
18 approach over the whole five-year contract period and base
19 that, you know, critically on, again, what we see for the
20 publicly available information that we had on CalPERS, but
21 also leveraging, you know, what we do with other statewide
22 and large city pension systems.

23 ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank
24 you. And can I just ask a follow-up question?

25 CHAIRPERSON HOLLINGER: Of course.

1 ACTING COMMITTEE MEMBER PAQUIN: So you mentioned
2 that you work with the State of Delaware's pension fund.

3 MR. HAMMOND: Correct, right.

4 ACTING COMMITTEE MEMBER PAQUIN: How many hours
5 approximately do you spend on their engagement in a year?

6 MR. HAMMOND: Similar to CalPERS, they have a
7 financial statement audit. They also have a GASB 68 for a
8 number of different subfunds, and GASB 75 schedules. All
9 in, that's about 3,300 hours.

10 ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank
11 you.

12 CHAIRPERSON HOLLINGER: Thank you.

13 Mr. Miller.

14 VICE CHAIRPERSON MILLER: Yeah. Kind of a
15 two-part here. Could you talk a little bit about -- kind
16 of expand on your firm's actuarial staffing level and
17 their experience. And then tell us a little bit about the
18 advantages or disadvantages you see in having your own
19 in-house actuarial function versus kind of contracting
20 with another firm?

21 MR. McCLEARY: Yeah. So we've got -- right now,
22 within our staff, we've got two actuaries, and third one
23 that just passed the exams and will be applying shortly.
24 So we'll have three by this spring. We're a small staff,
25 as it stands right now, but growing. That staff is part

1 of the compensation and benefits practice within BDO. And
2 we believe that by having, you know, our own staff that's
3 self contained, you know, we've got tools, and we've got
4 surveys. We've got the experience that it takes to review
5 the assumptions for the audit teams. I'm the most senior
6 actuary, and I've got 31 years of experience. Our next
7 senior has about 25 years of experience.

8 VICE CHAIRPERSON MILLER: Thank you.

9 CHAIRPERSON HOLLINGER: Okay. Did you get --
10 okay. Ms. Brown.

11 COMMITTEE MEMBER BROWN: Thank you.

12 Can you just tell us what sets your firm apart
13 from the other public accounting firms we're considering
14 today?

15 MR. KARO: You know, it's funny, I've been in
16 public accounting almost 27 years now. I worked for other
17 firms. I've been 10 years now with BDO. And I get that
18 question a lot, because you think about why did you come
19 to BDO or leave another firm? And it really comes down to
20 our core values and our culture at BDO, compared -- what I
21 believe compared to other firms. I know you're going to
22 ask this question to other firms as well, so you're going
23 to get a variety of answers.

24 But when we look at our core values, and they're
25 actually -- we believe in them. They're on the back of

1 each of our business cards and we carry around with them
2 every day. And we looked at the core values you have on
3 your wall. We believe we align up with that. And, you
4 know, I never want to be negative about other firms,
5 because every firm is a great firm, otherwise they
6 wouldn't be around.

7 But when we come down to our core values and we
8 think about people first, and we think, well, what CalPERS
9 mission is, is providing for people, I truly believe
10 that's what we're about is our people and growing our
11 people.

12 And just the other values of exception audit
13 quality, embracing change as being an innovative and all
14 the other things that come along with that. So I don't
15 want say why we're -- I think your question was why we're
16 better.

17 COMMITTEE MEMBER BROWN: Actually what sets your
18 firm apart.

19 MR. KARO: Sets your firm apart. Exactly.

20 COMMITTEE MEMBER BROWN: You could say it means
21 better.

22 MR. KARO: Yeah. Well, I always -- well, look,
23 we always think we're better, right? And you're going to
24 hear that three other times time, I'm sure, as well. But
25 it's really for allowing us to prove that to our clients.

1 And when you speak to our clients, I think you'd come back
2 with the answers I'm giving you is that we look for
3 solutions for problems. We don't try to make problems.

4 COMMITTEE MEMBER BROWN: Thank you.

5 CHAIRPERSON HOLLINGER: Thank you.

6 Mr. Slaton.

7 COMMITTEE MEMBER SLATON: Thank you, Madam Chair.
8 So CalPERS, along with all public pension funds, are
9 impacted by new regulatory issues as they come up. So how
10 do you ensure that your staff is up-to-date with the
11 regulatory framework and the level of changes that can
12 occur in our space?

13 MR. HAMMOND: Yeah. So we have a very robust,
14 what we call, CPE program. And that involves kind of
15 broad-based learning platform for everybody across the
16 firm. You know, as CPAs we have to maintain a certain
17 level of learning. But then it goes beyond that. So in
18 our government group working on CalPERS, you know,
19 everybody would have to have a significant amount of
20 yellow book credits or government auditing specific
21 credits.

22 And so every year in D.C., we hold an annual
23 nonprofit and government conference. It's June. And we
24 assure that we have targeted topics to address the needs
25 of our critical clients. I've presented there before on

1 implementation of GASB 74.

2 Excuse me.

3 And so, you know, that would be an avenue that
4 the teams would all be, you know, physically present
5 together and be able to learn. We also have a lot of web
6 content that we deliver to our teams. I know Sylvia can
7 speak on -- on the interaction that the benefit plan teams
8 have on a monthly basis. There's calls, you know, that
9 not only update on learning, but also on logistical
10 issues, maybe working with a certain service provider, you
11 know, State Street for example. You know, how to better
12 get reports or interface with them.

13 On the regulatory front, you know, we also have a
14 dedicated national thought leadership team that responds
15 proactively to, you know, various things that aren't
16 impactful for your financial statements necessarily, but
17 on the investment front. You know, things at the SEC or
18 PCAOB, things that, you know, your Committee would be
19 concerned of.

20 And, you know, we respond as a firm, but we also,
21 you know, appreciate and provide feedback to our clients
22 who have a desire.

23 COMMITTEE MEMBER SLATON: Okay. Thank you.

24 CHAIRPERSON HOLLINGER: Thank you.

25 Could you also please describe your firm's,

1 because it's obviously something that's concern to us,
2 your data protection capabilities? We are the largest
3 asset owner and the largest capital market, as well as
4 have health information on almost two million current and
5 active retirees.

6 MR. AHLERS: From a cybersecurity perspective, we
7 have a dedicated team lead by our CISO, our Chief
8 Information Security Officer, who reports dually up
9 through myself and all up through the risk committee as
10 well.

11 We have approximately eight people on that
12 committee -- or on that team that are dedicated to
13 cybersecurity and looking at it from not only a risk
14 perspective, but also from a technology perspective as
15 well to ensure that -- that we are, you know, protecting
16 our data and protecting data information we receive from
17 our clients in a -- and also from a law standpoint as
18 well, ensuring that if we do get, you know, HIPAA
19 information, or anything like that, that it's handled in
20 accordance to our -- you know, the industry practices.

21 In regard to, you know, as we move forward with
22 this, it's probably -- it is one of our top areas within,
23 not only IT, but also within the firm. You know, we took
24 cybersecurity very seriously, and data protection. As,
25 you know, you take -- you can't basically turn on the

1 evening news and not look at some sort of breach
2 information out there.

3 And our firm has taken a very proactive stance
4 with that, and to invest in -- you know, invest in -- not
5 only in the technology side, but also on the training with
6 the staff and the partners as well. We have a robust
7 training program that everybody goes through, not only
8 internally and externally as well with that.

9 CHAIRPERSON HOLLINGER: Thank you. Thank you
10 very much.

11 Mr. Ruffino.

12 ACTING COMMITTEE MEMBER RUFFINO: Thank you,
13 Madam Chair.

14 I've got a two-part question. First, does your
15 firm currently perform any work for CalPERS? If so, and
16 if awarded this contract, how will your firm ensure its
17 independence to perform the financial statement audit?

18 MR. HAMMOND: So we -- we've circulated an
19 independence conflict check-out prior to bidding on the
20 work for CalPERS and received no responses. BDO has done
21 some work for the system in the past regarding some
22 investment valuation support. But, you know, we believe
23 that all the safeguards and -- would be in check, so that
24 we would remain independent.

25 ACTING COMMITTEE MEMBER RUFFINO: So you work --

1 CHAIRPERSON HOLLINGER: Here. Hold on.

2 Go ahead.

3 ACTING COMMITTEE MEMBER RUFFINO: Are you working
4 for CalPERS now? Do you have -- do you currently perform
5 work for CalPERS?

6 MR. HAMMOND: I believe that service has ended.

7 ACTING COMMITTEE MEMBER RUFFINO: Thank you.

8 CHAIRPERSON HOLLINGER: Mr. Miller.

9 VICE CHAIRPERSON MILLER: I think --

10 CHAIRPERSON HOLLINGER: I'm sorry.

11 MR. KARO: I just wanted to follow up on the
12 independence. We have a database that everybody needs to
13 report their investments into as well to ensure there's no
14 conflicts that are there, as well as circulating
15 independence checks within the firm. So it's a two-way
16 part to ensure we have independence within the firm.

17 MR. DOYLE: I'm sorry. And I just wanted to add
18 to the -- I think the evaluation work was back in 2017.
19 And again, it was concluded at that point in time.

20 CHAIRPERSON HOLLINGER: Thank you.

21 VICE CHAIRPERSON MILLER: Thank you.

22 Your proposal states that the principal
23 engagement partner is currently obtaining a California
24 CPA -- oh, did he?

25 CHAIRPERSON HOLLINGER: Yeah. Yeah, we got that.

1 Okay.

2 VICE CHAIRPERSON MILLER: I missed that one while
3 I was multi-tasking.

4 CHAIRPERSON HOLLINGER: That's okay.

5 VICE CHAIRPERSON MILLER: So based on the
6 references you provided for audits, your firm has
7 performed for other pension systems, was your firm chosen
8 through the client's open bid RFP process or some other
9 method?

10 MR. DOYLE: I'm sorry, I believe it't through the
11 open bid process.

12 MR. KARO: Are you talking on -- sorry. Are you
13 talking on the other opportunities?

14 VICE CHAIRPERSON MILLER: Right, some of the
15 Other opportunities -- other clients.

16 MR. KARO: On the other opportunities.

17 MR. DOYLE: Yes.

18 MR. HAMMOND: As a clarification, you know,
19 similar to other public bidding opportunities, oftentimes
20 there's opportunities for extensions of contracts. And we
21 find generally that our clients are quite pleased with us.
22 And if there's an opportunity to extend a contract, that
23 they would.

24 CHAIRPERSON HOLLINGER: Mr. Slaton.

25 COMMITTEE MEMBER SLATON: Thank you.

1 So as part of any audit, there's always this look
2 at internal controls. So can you talk a moment about your
3 philosophy of -- I know you're not auditing the internal
4 controls, but you are looking at them. So what's your
5 philosophy in regard to how deeply do you go into looking
6 at the issue of internal controls -- the adequacy of
7 internal controls?

8 MR. DOYLE: I'm going to start and then have
9 Keith give some color commentary. In year one, we will --
10 we do a fairly deep dive into that -- into internal
11 controls. Again, we're doing it from a standpoint of risk
12 assessment. But we're looking really as to how to make --
13 do our audit as effective as possible. So the more detail
14 we get into that, we certainly can look to see okay where
15 do we need to focus our time and so forth.

16 MR. HAMMOND: Yeah. Again, as part of the risk
17 assessment process, we're required to review all the
18 control activities that are relevant to the audit process
19 that could have a significant impact. And as part of
20 that, we'll also interface with the internal audit team
21 here, as well as probably members or yourself to
22 understand what the entity feels are risks or potential
23 control issues identified.

24 And at that point, once we identify any, what we
25 call, material weaknesses or significant deficiencies,

1 those -- those would be brought to those charge with
2 governance, yourself and management would have to provide
3 a response to those control issues.

4 So we look -- we look forward to, you know,
5 reviewing internal controls, because we really think
6 that's an opportunity for an organization for us to use
7 our collective experience to help an organization mitigate
8 their risk.

9 COMMITTEE MEMBER SLATON: Okay. Thank you.

10 CHAIRPERSON HOLLINGER: Ms. Brown.

11 COMMITTEE MEMBER BROWN: Thank you, Madam Chair.

12 I want to go back to your response to question 1,
13 which is what sets you apart is that you find solutions to
14 problems. And I want to sort of tag team that onto our
15 other question, which is about your experience in auditing
16 large public pension systems. And because you can always
17 come across some troubling findings, I'm just wondering
18 how you work to solve those problems with your clients --
19 your pension clients? Without naming, you don't have to
20 name names.

21 (Laughter.)

22 MR. KARO: No. You know, it's funny. I mean,
23 you know, it's out being a partner together in this. It's
24 not us versus them or we're spying, right? Where the
25 auditors are in here you can't talk to. We want to become

1 partners with our clients. We need to know what you know
2 for us to do our job appropriate. Like Keith just said,
3 interviews with those charged with governance. What are
4 your concerns? How do we work through those concerns and
5 work with management at the same time? So it's balancing
6 act to that.

7 But you can get through any problem being --
8 having a adversarial relationship with management or those
9 charged with governance. They have to come together.
10 There's just currently probably one of our largest wins we
11 just had was for -- and it's not a -- it's not a pension
12 plan, but it's a large public company. Their current
13 auditor was basically resigning and leaving them. And
14 they had to reissue -- we're in the current process right
15 now of reissuing two years of audits for them and four
16 quarters. And we started that relationship with them in
17 September.

18 And we -- the partner who is not here today did a
19 magnificent job of building a relationship with the audit
20 committee chair and the CFO to get them comfortable with
21 how we get through. And we weren't even engaged at this
22 point, but for three months worked through solutions to
23 their problems of how to get to the point of how to have
24 them change auditors.

25 At the 8th hour, they came in and brought

1 another -- a board member brought in another firm to
2 compete against us. The audit committee still went with
3 BDO because they said for three months we've been working
4 on solutions with them, not putting up road blocks in the
5 process.

6 So again, I go back to the teaming. We're
7 partners in this. We work together, but we keep our
8 independence at the same time.

9 COMMITTEE MEMBER BROWN: Thank you.

10 CHAIRPERSON HOLLINGER: Thank you.

11 Yeah. Seeing no further questions, and only
12 having 12 seconds left, I wanted to thank you all for your
13 time. If you'd like to take these last few questions --
14 seconds to say something, feel free.

15 But on behalf of the Board and the Committee, I
16 want to thank you.

17 MR. DOYLE: Thank you.

18 CHAIRPERSON HOLLINGER: Thank you.

19 (Thereupon BDO left the auditorium)

20 CHAIRPERSON HOLLINGER: Okay. At this time, I'd
21 like to invite staff to have the representatives of
22 CliftonLarsonAllen to join the auditorium.

23 (Thereupon CliftonLarsonAllen entered
24 the auditorium.)

25 CHAIRPERSON HOLLINGER: Hello and welcome. I

1 wanted to let you know that you'll have 10 minutes for
2 your presentation. We really are appreciative of your
3 time here this afternoon. And staff will start the clock.
4 As you see, the time will start running as soon as the
5 first one of you begins to speak. And then at the end of
6 10 minutes, there's going to be a 20-minute question and
7 answer, in which we'll be asking you questions.

8 And we look forward to hearing your presentation,
9 and feel free to start.

10 COMMITTEE MEMBER BROWN: Show them how to turn on
11 their microphones.

12 CHAIRPERSON HOLLINGER: Oh, I'm sorry.

13 MR. REY: Am I on?

14 CHAIRPERSON HOLLINGER: Each of you -- it's to
15 their left? Right.

16 MR. REY: Gotcha. Okay. Thank you, Madam
17 Chair --

18 CHAIRPERSON HOLLINGER: Thank you.

19 MR. REY: -- members of the Committee. My name
20 is Thomas Rey. I'm a principal at ClitonLarsonAllen. And
21 I actually head up what we like to call a nation -- our
22 national public pension practice. So the team that I've
23 assembled here to my right are members of that team. They
24 spend the majority of the billable hours throughout the
25 year working with large retirement systems throughout the

1 year.

2 So I'm going -- in the interest of time, I'm not
3 going to have them introduce themselves, but I certainly
4 hope that maybe there's a few minutes at the end that they
5 can add to my comments. And if not, hopefully, they
6 certainly -- I encourage them all to address any of your
7 questions.

8 So again, it's a pleasure to be here, and both
9 exciting, and again really a culmination of what I believe
10 started about 17 years ago when the firm really got into
11 State and local government practice. And I found myself
12 really drawn towards public pension systems, and
13 interested both in the investment side and just kind of
14 how the nuances, and how they're different from ERISA and
15 Department of Labor type plans.

16 And over the last 15 or 16 years, that practice
17 has grown quite significantly. And so as I mentioned, the
18 folks here represent team members of that growth and they
19 work on retirement systems most times of the year.

20 A little bit a background on CliftonLarsonAllen.
21 So we are the ninth largest firm in the country. We do no
22 publicly-traded companies, and that is intentional. So
23 again, to be the ninth largest firm in terms of revenues,
24 and not do a lot of large Sarbanes-Oxley publicly-traded
25 companies is -- is a significant -- is significant to get

1 to that point. Our focus is in the public sector.

2 So again, most of our -- most of our folks -- we
3 have 5,500 people nationwide in 99 offices, so certainly a
4 lot of resources to be had. In California, our offices,
5 we have over 400 people, again that are in terms of -- in
6 terms of resources.

7 So a little bit -- really my next -- my next
8 point is really why? Why CLA for the members of the
9 Committee?

10 First -- the first and probably the most
11 important, we do more pension systems than any other firm
12 in the country, including the three folks that you're
13 interviewing today. We've had the opportunity to even
14 work with your excellent CEO at Washington DRS in the
15 past -- at a past life.

16 The folks that we will be bringing to you will be
17 a dedicated passionate team, passionate about pensions.
18 As I mentioned, they spend 95 percent of their billable
19 hours throughout the year working with governmental
20 retirement systems, both defined benefit and defined
21 contribution.

22 The next point I wanted to make is that we --
23 it's just a different kind of audit. And I'm going to get
24 to -- I'm going to kind of circle back to that a little
25 bit at the end. But what do I mean by that, a different

1 kind off audit or a different kind of approach? Again,
2 because we only do this all the time, we have a really
3 tailored approach. Every audit firm does risk-based
4 auditing and has audit programs they follow. We have
5 customized audit programs specific to governmental
6 retirement defined benefit and defined contribution plans.

7 Another item that makes things different is that
8 a few years ago the firm, and many firms around the
9 country, had data analytics, initiatives if you will. And
10 our firm, like everyone else said, hey, how do you make
11 audits better, and data -- there was a national data
12 analytics initiative at the firm. I'm really proud in the
13 sense that this team has really run with that data
14 analytics. And there's been a lot of efficiencies that we
15 can gain in this audits. And I think it makes the audits
16 Of retirement systems better.

17 We are able to see entire -- so traditional
18 auditing is sampling and things like that. We're able to
19 see entire data sets. So we can do data analytics, not
20 just from a completeness of the population and validating
21 the completeness of the population, but also doing -- like
22 with benefits, we can see every check that's cut. And
23 then that -- those data analytics become a little -- a lot
24 more powerful as we build on them year over year. And
25 then we can see anomalies -- trends and anomalies, and

1 then focus on things that look -- look odd or out of
2 place.

3 And so rather than needle in a haystack type of
4 sampling, we're able to kind of really drill down on
5 things that look odd.

6 Another big part of this project is obviously the
7 employer census testing, GASB 67 a few years ago, and now
8 GASB 75. We are leveraging a lot of off data analytics,
9 in terms of getting employer payroll information, and then
10 valid -- and then matching the entire employees, not just
11 25 or 50 employees at a various employer. We're able to
12 get all of their data, and then match it up with your
13 actuarial census files, and really get a good handle on
14 the -- on the population as a whole, versus looking at 25
15 personnel files or 50 personnel files at a particular
16 employer.

17 Again, we have actuaries that we work with, and
18 those actuaries specialize in the government space. So
19 they only -- they specifically work with GASB clients.
20 And that has been another thing. So again, some firms
21 have their actuaries, but they might be a jack of all
22 trades. The actuaries that we work with are GASB
23 specific, and we work with only them. And that has borne
24 a lot of fruit in the years subsequent to GASB 67 and 68,
25 and 74 and 75, in the sense that now there's two

1 valuations, there's your funding valuation, and you have
2 your accounting evaluation, which is different, and
3 separate, and has its own differences.

4 And we have actually looked at the systems
5 actuaries' valuations, if you will, and had really good
6 feedback and comments, and even had -- and found some
7 issues in working with our actuaries.

8 We also, as part of our group, have an IT or
9 business risk services that again their primary role and
10 focus is on controls, both on benefit calculations, member
11 reporting data. But again, in recent years, we've really
12 challenged that group to kind of step up their game. And
13 outside of just access controls and data controls, they've
14 really done some really awesome value-add, both in the
15 account privacy, cybersecurity, and IT risk assessments.

16 And then lastly, and I know I only have a few
17 minutes so I definitely wanted to get to this. Probably
18 the most -- one of the -- a sensitive subject, but I'd be
19 remiss to not discuss it. You went through the point
20 score -- the point scoring, and we're number one right
21 now, and that's because we have the lowest -- lowest fee.

22 I believe that if we had the highest fee, we'd be
23 of value. I mean, we'd be as -- we'd be the best value of
24 the four firms you're working with. Again, I see them in
25 the marketplace. I know that no one is really doing what

1 we do. I feel that that fee is right.

2 I also know that the biggest portion of that fee
3 is that employer census testing. And I kind -- we know --
4 even if I take your entire 3,000 -- 3,000 employer
5 population and take a really conservative sample size, I
6 believe that, you know, the fee that we proposed is more
7 than fair in terms of getting that done. And again, I
8 don't think of it -- I'm short selling it. I know that --
9 I saw the -- saw the other fees and I won't say anymore
10 about that, but I do believe our fee is appropriate and
11 fair.

12 And then finally and lastly, my last comments,
13 and then like I said, I might -- I might have a minute for
14 someone to chime in, is that we're -- I mentioned that
15 we're really excited about the possibility of working with
16 CalPERS.

17 In regards to your current strategic plan, we
18 really believe that we can assist. I'm not going to be
19 able -- we're not going to be able to help you achieve market
20 returns. And we're certainly not going to be able to help
21 you lower health care costs. But I do believe that, you
22 know, some of the things that I talked about in terms of
23 the data analytics and our approach kind of go -- are in
24 lockstep with simplifying your programs, and improving
25 service, and reducing costs - and I talked about our

1 fee - and streamlining those operations to gain
2 efficiencies and improve productivity.

3 I also believe -- again, I talked about the IT
4 and the data analytics. I do believe that that helps in
5 enhancing the compliance and risk functions and continues
6 to -- we continue to up our game on the cyber piece, and
7 certainly would be partners in assisting CalPERS in
8 improving that.

9 So with that, that kind of wraps up my comments.
10 I know I've got 51 seconds.

11 (Laughter.)

12 MR. REY: But if there's anything else. Oh, I do
13 have -- today is my daughters's seventh birthday. So if
14 that -- that should be testament to like my passion for
15 being here. And she did ask that I win the CalPERS audit,
16 so that's what she wanted for the -- for her birthday.

17 (Laughter.)

18 MR. REY: So you might not need to cancel the
19 rest of the interviews, so --

20 (Laughter.)

21 MR. REY: And again, I will open it up to anyone
22 else. Anything?

23 CHAIRPERSON HOLLINGER: Twenty-three seconds.

24 MR. REY: You can just say -- or we can just go
25 right into the Q&A. You know, I've got 15 seconds.

1 CHAIRPERSON HOLLINGER: Okay. Well, I guess
2 we'll start -- well, happy birthday, first of all, to your
3 daughter. Before I open it up to questions -- and you're
4 correct, I just wanted a clarification, because your fee
5 was about the range of 40 percent less. And so I just
6 wanted to make sure that -- or that you understood or
7 could -- the full scope of the engagement?

8 MR. REY: I 100 percent understand it. As I
9 said, we -- this is all I do. And we actually have
10 clients that have as many employers. Certainly not about
11 to say -- well, you know, try to compare in terms of
12 complexity. I know what it's going to take. And as I
13 said, I can just do the math in my head and say, you know,
14 at a conservative sample to do what needs to be done on
15 the employer testing, right now comes out to about \$10,000
16 per employer. I think that is more than enough quite
17 honestly.

18 So let's say I did 150 was my -- was my sample
19 size. That's about five percent of that 3,000, which is
20 kind of where -- that's GASB 67 employer testing sampling,
21 what the audit guide kind fall -- were things fall.
22 Again, could be more, could be less.

23 Again, I know that it doesn't cost -- that it
24 costs that. So any -- again, I stop short of saying
25 anything about the other fees. I just know what it takes.

1 CHAIRPERSON HOLLINGER: Yeah. So it was just
2 understanding, you know, how you arrived at those hours.

3 MR. REY: And here's -- here's really -- I mean,
4 quite honestly in this -- in this competitive bid market,
5 it's so often that people you see what's being paid, and
6 then you've -- things go out to RFP and competitors like
7 to just take the sale. Let me look in the CAFR and see
8 what they paid, and then cut it by 15 or 20 percent.

9 CHAIRPERSON HOLLINGER: Oh, wait. What's with
10 the time?

11 COMMITTEE MEMBER BROWN: The timer didn't start.

12 COMMITTEE MEMBER SLATON: I would suggest 18
13 minutes.

14 COMMITTEE MEMBER BROWN: Oh, because the timer
15 didn't start.

16 CHAIRPERSON HOLLINGER: Oh, I'm -- okay.

17 MR. REY: That's fine.

18 CHAIRPERSON HOLLINGER: Okay. Okay.

19 MR. REY: But we built our fee from the ground
20 up.

21 CHAIRPERSON HOLLINGER: Okay.

22 MR. REY: We didn't take your current fee and
23 give it a haircut.

24 CHAIRPERSON HOLLINGER: Thank you.

25 Ms. Brown.

1 COMMITTEE MEMBER BROWN: Thank you. I like
2 zero-based budgeting.

3 I know your fee sets you apart, but what else
4 sets your firm apart from the other public accounting
5 firms we're considering, and why should we select your
6 firm?

7 MR. REY: I'm going to answer. And it sounds
8 like you're turning your mic on, so I'll certainly let you
9 do it. In -- at it's simplest, as I said, hopefully,
10 you've seen our list of clients. Again, it rivals any
11 firm. I think it's bigger than any -- any other firm.
12 And another thing that would set it apart is that
13 dedicated team. I know that there's no firm that has a
14 team that spends 100 percent of their billable hours in
15 this space. They do one or two.

16 Yes, the firm may have a list of clients that may
17 rival ours. But you're -- you would be getting people
18 that only do this year round.

19 MR. OSTROSKI: And just to follow -- my name is
20 Jason Ostroski. We didn't get full introductions. I'm
21 also a principal WITH CliftonLarsonAllen. I work in the
22 govern -- government pension group with Tom. I spend 100
23 percent of my year doing this as well. And I think that
24 is -- that and the data analytics are the two
25 differentiators, I think. And that's kind of how we sell

1 it always.

2 We spend 100 percent of our year working with
3 government pensions. We go to the conferences, NASRA,
4 P2F2. We get the CP. Our whole team is essentially
5 focused in the government pension space.

6 And then the second that I think is another key
7 differentiator that Tom also touched on was the data
8 analytics. And we have Ryan Merryman, he's a firm-wide
9 data analytics specialist. We have built out a full data
10 analytics approach around benefit payments, contributions,
11 even on the health care side, claims.

12 And we also, not only do that a year-end, but the
13 plan, and hopefully it's reflected in the proposal, is a
14 continuous approach to that throughout the year. So not
15 even waiting till year-end and getting a full dump of the
16 data. But doing that throughout the year, and then --
17 there's a multitude of benefits -- and I don't -- Ryan
18 maybe can speak a little bit to that -- around data
19 analytics where there's even management benefits.

20 And so I think those are the two things that we
21 do that I just don't see in this space, in the public
22 pension space, having all the way down to the staff level
23 managers, principals and the expertise in that space and
24 focusing on that, and then the data analytics.

25 MR. MERRYMAN: Yeah. To fill in a bit there, the

1 date analytic methodology was really borne as an
2 investigative approach. There's planning, information
3 gathering, the data analytics, and then the follow up.
4 And all of that is very strategic to look for risk.

5 So we're taking concepts to the fraud triangle.
6 We're taking concepts of the industry and the knowledge of
7 the team, and we're designing analytics to find those
8 risks, to identify those anomalies specifically. We're
9 not getting a large data set and taking a random sample of
10 25. We're looking for something that may be standing out.

11 And with that, we find the errors. We find the
12 mistakes, or at least we're more likely to. So it's very
13 powerful and efficient too.

14 COMMITTEE MEMBER BROWN: Thank you

15 CHAIRPERSON HOLLINGER: Thank you.

16 Ms. Paquin for Betty Yee.

17 ACTING COMMITTEE MEMBER PAQUIN: Thank you.

18 So your proposal response to question 14D
19 regarding the actuarial work with the Long-Term Care
20 Program within the last five year states N/A. Could you
21 elaborate on this response and how do you plan to meet
22 this experience?

23 MR. REY: So I apol -- I do apologize for that.
24 I think the -- that was a misinterpretation of that. We
25 do have -- we work with long-term care actuaries as part

1 of -- we have a large -- the firm has a large health care
2 practice. So we would have specialized actuaries that
3 only work with long-term care facilities and/or clients.

4 ACTING COMMITTEE MEMBER PAQUIN: Okay. So --

5 MR. REY: So the N/A is erroneous in the sense
6 that it is not -- it's not -- we're not going to do that
7 or not address that. We had a team of actuaries that --
8 as I said, that work in the GASB space. And those are our
9 prime actuaries for both the GASB 67 and 74 valuations, as
10 part of the -- and working with internal actuarial staff
11 here. But we will have separate actuaries that only
12 specialize in long-term care.

13 ACTING COMMITTEE MEMBER PAQUIN: Okay. Thanks.

14 CHAIRPERSON HOLLINGER: Mr. Slaton.

15 COMMITTEE MEMBER SLATON: Thank you, Madam Chair.

16 Two quick questions. One is I think your
17 proposal states that the principal engagement partner is
18 currently obtaining a California CPA license, is that
19 true, and if so, can you provide a status on that?

20 MR. REY: It's in pro -- I don't know what you
21 know about getting it. I used to have my license in
22 California many years ago. And then I -- when the firm --
23 when reciprocity came out and you really only needed one
24 license, the firm, probably for save a couple bucks, kind
25 of gave up all -- except my primary residence. It's in

1 process.

2 COMMITTEE MEMBER SLATON: Okay. CalPERS is
3 constantly impacted, as all pension systems are, by new
4 laws and regulations. So how will you firm -- how will
5 you ensure that your firm is up-to-date on the regulatory
6 framework as it changes?

7 MR. REY: I mean, there's a few answers to that.
8 As I said, we do have -- we will have California
9 principals that will be as part of the team, and will be a
10 resource to you throughout the year. And then certainly
11 one of their roles -- and I believe problem the Committee
12 knows that CalPERS typically doesn't sneeze without
13 everybody kind of knowing about it. So there -- anything
14 that's going to impact CalPERS will -- we will be
15 tracking.

16 And certainly, as I said, I've got 400
17 professionals in California and part of -- and part of the
18 proposal team are folks. I've got commitments from the
19 managing partners throughout Cal -- our California
20 offices. And again, they will be working with us to
21 assist in keeping abreast.

22 But I mentioned passion before. This is all I
23 do, so I'm kind of geeky about public pensions. And I
24 certainly would be very diligent personally, and as with
25 the whole team, in trying to -- in keeping abreast. And

1 as I said, we also have our California folks that would
2 make sure they -- they're reminding me if, by chance, we
3 miss something.

4 COMMITTEE MEMBER SLATON: Okay. Thank you.

5 CHAIRPERSON HOLLINGER: Mr. Miller.

6 VICE CHAIRPERSON MILLER: Yeah. What are the
7 advantages, disadvantages to having in-house actuaries
8 versus subcontracting for this work while performing
9 financial statement audits for CalPERS?

10 MR. REY: I have my actuary, so I'm going to
11 let -- I'm going to let him talk, but I'm going to tell
12 you exactly, you know, my -- my opinion hopefully in 10
13 sec -- in 10 or 30 seconds.

14 This was -- what I did in -- when GASB 67 --
15 obviously we had funding, and that was always in your
16 actuarial section. And we looked at the valuation, and
17 for reasonableness, and the assumptions. And when 67 kind
18 of came into play, the smartest thing I ever did was --
19 was not use our internal actuaries. We have internal
20 actuaries, but they have no -- they're not skilled or
21 schooled in GASB pronouncements.

22 So I -- we work solely with outsourced actuaries,
23 that again, in a very similar fashion, but in a non-audit
24 fashion, live and breathe governmental valuations.

25 And with that, I'll kind of turn it over to our

1 outsourced actuary.

2 MR. FRANKEN: Good afternoon. My name is Jason
3 Franken. And I'm a Fellow of the Society of Actuaries.

4 So just a little bit about our relationship with
5 CliftonLarsonAllen. We have been working with them for,
6 you know, the better part of six or seven years now. And
7 it's -- you know, the audit that's part of what we do.
8 But our primary -- our -- my firm's primary role is to be
9 the consulting actuary for pension funds and
10 post-retirement medical funds across the country.

11 We work with over -- you know, over three or four
12 hundred different funds across the country from local --
13 smaller local plans to statewide plans. And so, as Tom
14 alluded to, this is -- this is all we do. We live and
15 breathe with -- with pension consulting work.

16 And so as a result, you know, we're bringing
17 expertise that the actuaries that they had in-house did
18 not have. And so one of the things during our
19 relationship, we've been able to uncover a number of
20 issues that have been -- the issues and calculations that
21 have been performed by the fund's actuaries. And I know
22 that -- I believe all of your calculations -- or most of
23 them are done in-house, but we would be re -- we do review
24 all of these calculations.

25 And in one case, we found, you know, a -- over,

1 you know, billions -- billion dollar error in one of the
2 calculations of the net pension obligation that -- net
3 pension liability, that the funding -- or the fund's
4 actuary had missed.

5 And so I think what we're bringing to the table
6 is expertise. And similar to this team, the
7 CliftonLarsonAllen team, who is completely dedicated to
8 performing work for public pension plans, that's what we
9 do on an actuarial basis. So you are getting expertise
10 from people who are living, breathing, doing this, you
11 know, all year-round.

12 And again, I think that it has been a very good
13 relationship. In fact, I think most actuaries -- fund
14 actuaries that have CliftonLarsonAllen as their auditor,
15 are not usually thrilled with that, because we bring a lot
16 of issues to them. We're not -- you know, we're not just
17 rubber stamping everything. We're digging into it. And I
18 think a lot of -- a lot of accounting firms, auditing
19 firms that I deal with, you know, they don't have that
20 expertise. And a lot of times they'll just rubber stamp
21 everything without necessarily investigating issues that
22 we think are obvious. And so again, I think that's really
23 the -- that expertise is something that we bring to the
24 table.

25 CHAIRPERSON HOLLINGER: Thank you.

1 I'm just going to interject here. Can you please
2 describe your firm's data protection capabilities? We're
3 one of the largest -- the largest asset owner in the
4 largest capital market. We have over two million current
5 and active.

6 MR. REY: Now, we're all -- this is awesome,
7 because now I get to introduce Randy Romes, who will
8 hap -- I was curious if he was going to be able to say
9 something, so I'll let you have it.

10 CHAIRPERSON HOLLINGER: Well, thank you.

11 MR. ROMES: Thank you. My name is Randy Romes.
12 I'm the principal in charge of our cybersecurity and IT
13 audit practice. So I'm a consultant, but I do help the
14 firm and advise the firm. I serve on a couple of
15 strategic committees. We've got a number of layers of
16 defense in that regard. All of these things are fully
17 encrypted, and we test that regularly.

18 Our firm engages an outside third party to
19 perform a security assessment of the firm every year, a
20 full blown penetration test. And we use that to improve
21 our processes, understand where our exceptions are and
22 safeguard our systems. Where appropriate, we have some
23 third-party service providers that we utilize to manage
24 and host applications. Those systems are vetted ahead of
25 time for our firm's security standards, and then they're

1 tested as well.

2 So we follow an approach of defining a secure
3 architecture, whether it's our in-house systems or our
4 hosted systems. And then we review and test that
5 regularly.

6 Not only does the firm perform independent
7 testing when they're getting ready to roll-out something
8 new, a new application, a new service, a new process,
9 frequently our team will be engaged to test the systems,
10 validate that the security is as the firm expects prior to
11 going live with the new system.

12 When that translates into serving you all, we
13 have secure email messaging and file exchange portals, so
14 that we can manage the exchange of data as we need it. We
15 have document retention standards, so that we don't --
16 first, we don't take in data that we don't really need.
17 You can't really breach data, if you don't have it.

18 Number two, when we're done with the data, we get
19 rid of it. So we delete it, we purge it, and we have
20 retention policies and processes to manage that to make
21 sure that it actually occurs.

22 Did that address your question? Was there
23 something else you were looking for?

24 CHAIRPERSON HOLLINGER: No, that did. Thank you
25 very much. I so appreciate it.

1 Mr. Ruffino.

2 ACTING COMMITTEE MEMBER RUFFINO: Thank you,
3 Madam Chair.

4 This is a two-part question. Does your firm
5 currently perform any work for CalPERS, and if so, and if
6 awarded this contract, how would your firm ensure its
7 independence to perform the financial statement audit?

8 MR. REY: So the answer to your first question is
9 no. And then I would assume that my -- the second part is
10 non-applicable.

11 ACTING COMMITTEE MEMBER RUFFINO: Okay. Thank
12 you.

13 CHAIRPERSON HOLLINGER: Mr. Slaton.

14 COMMITTEE MEMBER SLATON: Thank you, Madam Chair.
15 So in every audit, the issue of internal controls
16 is always a topic of discussion. So could you share a
17 little bit about your philosophy regarding the continuum
18 of testing internal controls all the way to auditing
19 internal controls. And I know that audits don't typically
20 include the auditing of internal controls. But would you
21 comment on your philosophy on that?

22 MR. REY: Sure. We actually won't -- you want to
23 take this one or Randy? I just want someone to get
24 your -- we brought everyone out. I want everyone to kind
25 of at least have an opportunity and I will chime in.

1 MR. OSTROSKI: Philosophy for testing internal
2 controls. So in any audit you do a risk assessment. And
3 we would do a robust risk assessment obviously of CalPERS.
4 I think the industry expertise certainly allows us to --
5 from a best practice perspective especially, when we're
6 going through the process of walking through your
7 controls, identifying key controls, identifying the
8 significant risk areas of just sharing things that we've
9 even seen in other retirement systems around the country.

10 But as far as the philosophy, we do that. We do
11 the risk assessment. We identify the significant audit
12 areas: benefits, contributions, claims payments, et
13 cetera; identify the key controls over those areas; and
14 then where we deem it appropriate, we'll perform tests of
15 controls. If that's something where we're attempting to
16 achieve below what would be like a high control risk -- so
17 if we're trying to get to moderate or low control risk,
18 particularly in those high-volume transactions areas, you
19 know, esp -- like I said, the claims payments, the
20 contributions, the benefits, then we will then test those
21 controls. If they're operating effectively, that allows
22 us to go strictly to an analytics approach on those areas.

23 Other areas, investments, we're walking through
24 controls. We may not be testing controls. We may be
25 taking more of a substantive approach. But still, there's

1 a full walk-through of those controls of understanding
2 what the controls are in place over any of the significant
3 audit areas.

4 MR. REY: And I'll just piggyback off of that.
5 Again, one thing that I failed to mention in my approach
6 or a different kind of audit and another effort to kind of
7 gain efficiencies in this audit and be different, so it
8 might address a few questions, is one of my goals for --
9 for this audit if we were successful in this bid is to
10 really use that data analytics, leverage some of the
11 successes that we've had in other retirement systems.

12 But probably different than any other retirement
13 system, I'd really love to work with staff and do
14 continuous auditing using that data analytics. I'll just
15 use benefit payments or contributions, anything, where if
16 we could get the data sets on a monthly basis, and then
17 have a team locally that -- and with -- under Ryan --
18 under Ryan's leadership, that basically was testing on a
19 rolling 12, I think there would -- there would be some --
20 if there were issues that were -- we'd be basically
21 testing all 12 months. If there are any issues, we'd be
22 able to bring them to management.

23 And I do think that kind of leads -- and I
24 appreciate the que -- that question, because it leads to
25 what I hope to make a -- differentiates ourselves. I

1 really believe that CalPERS is a perfect case study for to
2 do continuous auditing. And I do believe that it would
3 also benefit CalPERS staff internal audit as well, if we
4 were successful in doing that.

5 So again, if we weren't successful, we'd -- I
6 still be able to do your audit, and, you know, issue an
7 opinion on the CAFR. But I really believe that there's --
8 that's a powerful tool and would be a big differentiator.

9 CHAIRPERSON HOLLINGER: Your -- okay. Thank you.
10 Your time is up.

11 MR. REY: Thank you.

12 CHAIRPERSON HOLLINGER: Thank you.

13 Yeah. Thank you for coming. So appreciate your
14 time.

15 MR. REY: Thanks for having us.

16 (Thereupon CliftonLarsonAllen left the
17 auditorium.)

18 (Thereupon Deloitte and Toucher entered
19 the auditorium.)

20 COMMITTEE MEMBER SLATON: Can we take a -- can we
21 take a five-minute break?

22 CHAIRPERSON HOLLINGER: Yeah. We'll take a
23 five-minute break before calling in Deloitte & Touche.

24 (Off record: 3:27 p.m.)

25 (Thereupon a recess was taken.)

1 (On record: 3:33 p.m.)

2 CHAIRPERSON HOLLINGER: Good afternoon. I
3 appreciate your time and for being with us this afternoon.
4 And I wanted to share with you that you will have 10
5 minutes for your presentation.

6 Should we, I think, close the --

7 COMMITTEE MEMBER BROWN: Yes, we should.

8 CHAIRPERSON HOLLINGER: Thank you. Sorry. One
9 sec.

10 MR. MELCHER: Good afternoon and thank you
11 very --

12 CHAIRPERSON HOLLINGER: Well, wait one sec
13 till -- because we want you to have the privacy.

14 And the other thing I wanted to share with you
15 before you speak, there's going to be a timer that comes
16 up on -- that 10 minutes. There you go. You'll have 10
17 minutes to make your presentation, and then that will be
18 followed up by a 20 minute question and answer.

19 Yeah, do you all know where your buttons are to
20 speak? It's to your left. Yes. And just like before,
21 when you see this lit up like this, you know that the mic
22 is turned on and we can hear

23 So can we get the clock? Oh, wait don't start it
24 yet. Okay. So when -- feel free to speak and we look
25 forward to hearing from you.

1 MR. MELCHER: Good afternoon and thank you very
2 much for hosting us today. My name is James Melcher and I
3 will be the leader of the audit services being provided to
4 CalPERS.

5 I have been with Deloitte for 18 years in the
6 audit practice. I spend a lot of my time auditing
7 investment management funds, some of which CalPERS are
8 investors in. And I also spend a chunk of my time
9 auditing pension funds of varying natures and
10 complexities.

11 To be very honest, when I heard about the
12 opportunity to be part of the CalPERS proposal team, I
13 really wanted to jump at the chance, having grown up in
14 California, and spending most of my life here. I actually
15 have family members who are hard working government
16 employees, who are now at or about retirement age. And
17 they are -- I know them. I speak with them and I know how
18 much the pension means to them right now and into their
19 future. So I just wanted to take the opportunity to say
20 I'm humbled to be here. And I thank for your oversight in
21 instituting a strong system of internal control, and also
22 providing governance in making selections like your
23 financial statement auditor. So thank you for that.

24 So in the interests of respecting your time, I
25 will first quickly induce our team, but I hope you'll get

1 a chance to speak with them directly during the Q&A
2 process.

3 So first, Julie Quinn. Julie Quinn is the office
4 managing partner here in Sacramento, and she leads our
5 more than 250 professionals. She's also the head of the
6 nonprofit organization practice for the greater Sacramento
7 area. She also has been a consultant for 25 years in
8 providing services for State and local governments,
9 including from time to time projects on CalPERS.

10 Julie's role partially is because, you know, we
11 are a national practice that has people everywhere, but we
12 want to make sure we have a strong local presence serving
13 you here in Sacramento. So Julie has the ability to make
14 sure that our on-site supervisor, our managers, and the
15 staff that we have will get essentially everything they
16 need to do their job to be able to serve you timely and
17 honestly as perfectly as they can.

18 Next is Catherine Daubek to my left. I actually
19 met Catherine my very first week at the firm at Deloitte,
20 and we've been working on pension audits together ever
21 since. She is the co-lead of our West Region Benefit Plan
22 Practice. And she also sits on the AICPA, expert panel
23 for the employee benefit plans. She has over 25 years of
24 experience in providing financial statement audits for all
25 types of pension plans, and she will bring that expertise

1 to the team.

2 To my right is Tim Mundy. I've know Tim now for
3 over a decade. And with \$350 billion of assets on the
4 balance sheet the need to be fair valued as part -- as
5 part of the audit, I will tell you unequivocally there is
6 no other person I would rather have on this team. Not
7 only is he a national managing partner in our practice,
8 but he also has audited every type of investment
9 management client from very large to very small. And any
10 investment strategy that you can make, he's been involved
11 in, Long-short equity, venture capital, private equity,
12 direct lending, derivatives overlay. You name it, he can
13 do it. So I'm very -- very, very pleased to have him on
14 the team.

15 Peter Mann to my far left here is our government
16 retirement systems specialist. Like me, he's been with
17 Deloitte for 18 years. And like me, he grew up in
18 California. He has most recently served as the lead
19 engagement partner on the Utah Retirement System, and
20 brings a wealth of knowledge in the world of GASB.

21 And to my far right, last but not least, is
22 Michael de Leon. He is our -- he'll be our lead actuarial
23 specialist. And he heads up Deloitte Consulting's public
24 sector retirement actuarial practice for the nation. He
25 has over 20 years of experience in providing retirement

1 actuarial services, including recent stints at the
2 University of California systems, and working with Peter
3 on the Utah Retirement Systems.

4 So that is the team.

5 So as I was reading through your 2018
6 comprehensive annual financial report, it was not lost on
7 me the amount of change that CalPERS is facing. The
8 strategic plan -- the 2017 to '22 strategic plan outlined
9 matters such as changes in discount rates, changes in
10 investment mix, and frankly changes in the overall
11 economic environment that will provide challenges to
12 CalPERS as it's moving forward.

13 I would submit that those challenges and those
14 changes can also provide opportunity. And we would submit
15 that one opportunity that you do have is to change
16 auditors and to select us to be that provider going
17 forward. You are the largest pension system in the United
18 States, and we are the largest professional services firm
19 in the world. So we have the resources and the ability to
20 help navigate those changes with you into the future.

21 So a couple specific reasons as why we think
22 we're a great fit. First, quality. Simply put, we are
23 number one. That is not some sort of glib statement put
24 together by our marketing folks. As you can see from the
25 bottom left chart up here, that is a statement of fact

1 that comes from our public regulator, the PCAOB, through
2 their inspection results.

3 Over the past several years, we are the
4 undisputed leader in quality in those audits. Whereas,
5 some of our competitors have had and still continue to
6 have struggles. We put the big four up there. But even
7 if you go beyond that to the other tier firms, there are
8 more spotty quality concerns there as well.

9 Make no mistake, that audit quality, whether
10 serving a public entity that is subject to review, or
11 serving a private entity, or a GASB entity like CalPERS
12 permeates the culture of the firm. The folks you see at
13 this table have been on quality audits across those
14 realms. And we have the confidence and the courage to
15 bring that level of quality to your audit here.

16 Secondly, our preeminent size and our quality has
17 allowed us to invest in innovative game-changing
18 technologies. Some of those are listed on the second
19 slide, but items such as D.Nav, Deloitte Connect, and data
20 analytics allow us to design tests that are both efficient
21 and effective.

22 But beyond that, there are some positive
23 externalities to CalPERS. First, Deloitte Connect, which
24 is our tool for communicating with CalPERS management
25 provides a secure portal by which PII and other sensitive

1 data can travel between CalPERS and us. And it's also
2 well lauded as being very user friendly and a great
3 interface that should actually reduce the amount of daily
4 work that the CalPERS folks have to do in meeting our
5 audit requirements and our audit requests.

6 Secondarily, and arguably more important, is
7 because we're able to have technologies that can look at
8 large subsets of data or entire sets of data, we are not
9 randomly picking things to test. We are able to see more
10 of the big picture, and sometimes, from time to time, find
11 insights that can actually, although being used for our
12 it, can be used to provide insights to CalPERS management
13 about pieces of their data, and help them possibly
14 streamline operations out of that.

15 So finally, industry. On the second page, as you
16 can see, we are industry leaders across the board.
17 CalPERS is not a simple organization. It does not require
18 an audit team that has one narrow set of skill sets. We
19 are bringing the best of the best from our investment
20 management industry, the best of the best from our pension
21 industry, and the best of the best from our GASB and
22 actuarial services. And those industries themselves are
23 industry leading.

24 So to conclude, I submit that now is the time to
25 embrace the change that is coming to CalPERS, this time in

1 the form of selecting Deloitte as your independent
2 auditor. You will not be alone.

3 If we can go to the first slide.

4 You will see that we are the leader in new
5 fortune 1000 wins on the slide on the bottom right. And
6 we're the only big four firm with a net positive win
7 ratio. We are also recognized by Forbes as the top
8 professional accounting services firm in their yearly list
9 of the top 100 companies to work for.

10 We believe there's a lot reasons for that, but
11 some of them are our focus on equal pay, the diversity
12 that is embedded in our culture, and our innovative
13 technologies not only make the audit product better, but
14 it makes it more fun for people to be on the audit and
15 they want to stay longer.

16 So ultimately, why should you change?

17 We believe that our quality, insight-developing
18 technologies, and leading industry expertise are
19 absolutely the hallmarks of our firm. And we are the best
20 positioned to partner with you as you embark upon the
21 change for the next five years. So we thank you for your
22 time. And now we would like to entertain any questions
23 you may have.

24 CHAIRPERSON HOLLINGER: Thank you.

25 I guess we can stop the clock and go to -- put

1 the clock on for questions.

2 An initial question or clarification that
3 sometimes concerns me when you go to the investment side
4 of our balance sheet, like I get concerned with whether
5 we're seeing the true financial reality of the companies
6 we're invested in regarding off-balance sheet items, and
7 whether they're being factored into the financial reality
8 that we're looking at.

9 MR. MELCHER: That's a great question. And the
10 answer is that is part of the fair valuation process, but
11 I'd like to turn that over to Tim Mundy to have a -- have
12 a stab at that.

13 CHAIRPERSON HOLLINGER: Thank you.

14 MR. MUNDY: And I guess for an element of
15 clarification -- it's a pleasure to meet you as well --
16 you have a number of different asset classes in which
17 you're invested in.

18 CHAIRPERSON HOLLINGER: Correct.

19 MR. MUNDY: There's been an enormous amount of
20 press about the delay in the true value in private equity
21 and venture capital.

22 CHAIRPERSON HOLLINGER: Right.

23 MR. MUNDY: Well, it's very simple, it will
24 continue as long as you use what we consider guideline
25 public companies. If you look at the information, when

1 you go to value a public com -- a private company, you use
2 information of companies that are like you. Your --
3 they're public, so that information is out there. 12/31
4 comes around, as of January 15th, you're running
5 information pulling what their multiples are.

6 Well, when did they publish their last multiples?
7 9/30 --

8 CHAIRPERSON HOLLINGER: Right.

9 MR. MUNDY: -- 10/30. Well, they may have missed
10 the entire window of what happened in the last 45 days of
11 the year. So that when the Chairman of Lowe's comes out
12 and says I don't understand why this went down 10 percent,
13 this asset class went down eight percent, and private
14 equity was flat. You're absolutely right, it's a valid
15 concern. That is exactly how the pricing process goes.

16 If you wait, and this -- I'm dealing more in
17 quarters and cycles, recognizing you're at a 6/30. By the
18 time we get to a point in time, management will have said
19 that we believe it's worth X. We will have come up with a
20 value because then, whether 6/30, 12/31, when those get
21 published -- I'll slow down for a minute, give you for
22 example.

23 12/31 doesn't generally get published until
24 February 15th or later, when public's started issuing,
25 through their Ks, what their multiples are. So if your

1 valuation is done any time before that 45-day window after
2 period, it will have stale or N data. And all of those
3 things won't come out.

4 There's a tremendous lag in the industry right
5 now with private equity values coming out at a point in
6 time.

7 CHAIRPERSON HOLLINGER: Right.

8 MR. MUNDY: Now, that's just -- that was
9 hopefully not too detailed, too confusing, but --

10 CHAIRPERSON HOLLINGER: No, but I appreciate the
11 answer. And thank you.

12 Ms. Brown.

13 COMMITTEE MEMBER BROWN: Thank you.

14 We're asking the same questions of all of the
15 interviewees. So you've probably already asked --
16 answered this in your opening remarks, but what sets your
17 firm apart from the other public accounting firms, and why
18 should we pick you? I think you've kind of done that, but
19 just give us, you know, 30 seconds one more time.

20 (Laughter.)

21 MR. MELCHER: Well, sure. You know, you've heard
22 from me for about 10 minutes. So I don't know if anybody
23 else here at the panel would like to just add anything? I
24 mean, I can --

25 COMMITTEE MEMBER BROWN: To your left.

1 CHAIRPERSON HOLLINGER: Go ahead.

2 COMMITTEE MEMBER BROWN: Yeah, you got it. You
3 got it.

4 MS. DAUBEK: We're good. So definitely what
5 differentiates is our people. I'm a transplant into
6 Deloitte. And I will tell you it's probably been the best
7 experience. And we don't go to an audit without our team.
8 Sometimes I call them my superheroes.

9 The other thing that really differentiates us,
10 and brings out the quality is our technology. The firm
11 has gone through a whole transformation process in
12 bringing in data analytics and bringing in Argus, a whole
13 bunch of tools. And we've seen it elevate our quality,
14 and what we're able to do with an audit.

15 So data analytics. You've got all of the census
16 data that is -- goes into the valuation of the pension
17 plan. We use the data analytics tool to analyze it in
18 risk assessment. But we're also finding that by getting
19 to look at 100 percent of the population, not just random
20 sampling, we can risk assess a little bit better. And
21 we're able to identify issues ahead of time.

22 So I had a client where the data analytic tool
23 noticed that there were 700 changes and dates of birth,
24 which you'd kind of go that's a problem. And when we went
25 through it with our client, it turned out that our client

1 had changed how they reported the fields, but had
2 neglected to communicate it with their external auditors.
3 And it ultimately became a material error that had to be
4 correct.

5 But the insight and visibility that we have
6 through these tools -- and it's not just our data
7 analytics for census data. Tim's team uses it for the
8 investment valuation and looking at an entire portfolio --
9 we get to visibly see more and to dig in. And it just
10 brings a level of quality that, you know, makes it
11 actually exciting for us to be auditors and know what
12 we're doing, and able to communicate and work.

13 COMMITTEE MEMBER BROWN: Your excitement proves
14 to me that you're an auditor.

15 (Laughter.)

16 MR. MELCHER: Yeah. We happen to be a little
17 weird. Like we love auditing.

18 (Laughter.)

19 MR. MUNDY: So one of the things that I want to
20 stress is part of D.Nav and part of our structure is we
21 are going to take a look at the 17,500 securities, all of
22 them. We're not going to sample based on that's not as
23 important as this is important. It's kind of the 80/20
24 rule, 80 percent of the portfolio will take us 20 percent
25 of the time. It's the real estate, it's the derivative

1 use. It's the private equity. It's the venture capital.
2 I'll know and be able to report to you, because we will
3 report within -- after 45 days, after 60 days, I'll say,
4 hey, listen there's a risk of the portfolio of shifting,
5 based on data that was provided initially, like we would
6 tell you now, because there is a risk. And we do that,
7 because we do the audit. You prepare it. We go into it
8 and when we pull the public comps they've changed. So we
9 know where the direction they're going after management
10 has prepared it. No flaw. Just timing and a process.
11 And that's what we would do.

12 And so we're doing almost 100 percent. I never
13 say a full 100 percent, because some things are worthless
14 and I audit zero well.

15 COMMITTEE MEMBER BROWN: Good, that was a good 30
16 seconds.

17 (Laughter.)

18 CHAIRPERSON HOLLINGER: Thank you.

19 Ms. Paquin for Betty Yee.

20 ACTING COMMITTEE MEMBER PAQUIN: Yes. Hi.

21 Can you please explain your rationale for your
22 fees and the staffing hours that you have across all five
23 years of the contract?

24 MR. MELCHER: Great. So I'll start that off.

25 So I think like we assembled the team with the

1 expertise in bringing answers to audit questions as they
2 might arise. We also assembled the budget in the same
3 way, meaning that Tim being the expert in the investment
4 valuation took a look at your portfolio and said this is
5 what the portfolio is. I've audited portfolio like this.
6 Let's build up the hours I would say from the bottom up,
7 and making sure that those hours were commensurate with
8 the work in each level.

9 Like we've said, we're the number one quality
10 firm. We don't do that by taking hours lightly and taking
11 budgets lightly. We make sure we have enough hours to
12 make sure that it is correct. So I'd like to turn this
13 over a little bit to Peter Mann to talk through a little
14 bit of the hours on sort of the GASB work, and how that
15 was built up just as a specific example.

16 MR. MANN: Well, thanks, James.

17 We have significant experience serving retirement
18 systems throughout the U.S. We've served several over the
19 years. And as James mentioned, I recently served for
20 several years as the lead on the Utah Retirement Systems
21 audit. So we have experience in knowing what's required
22 and how many hours it takes to get these audits done.

23 You know, we understand the responsibility that
24 you have in providing accurate information out to the
25 various employers and their auditors throughout the state

1 that rely on this information in recording these amounts
2 correctly in their financial statements. There's a lot of
3 people relying on this information, and a lot of
4 responsibility in making sure it gets done right.

5 And in looking at the GASB 68 schedules and the
6 74 schedules and what's required in there, there's a -- we
7 understand how much hours it takes to test the
8 contributions in there, the benefit payments, which have
9 actuarial factors. And we involve Michael on our team in
10 helping to make sure we look at those and those are
11 reported accurately.

12 And it's, you know, very much looking at what --
13 these schedules, they very much have followed a
14 substantive approach too. There's a couple of different
15 approaches you can take in looking at these GASB 68
16 schedules and providing this information out to the
17 employers. What's been taken and what's been followed is
18 a very substantive base approach, where, in particular,
19 with the agent plan, the opinion on those schedules are by
20 individual rate plan. And with over 400 rate plans in
21 that schedule, that's -- that's opining on each of those
22 individual Columns. So it's testing the contributions,
23 the benefit payments associated with each of those. And
24 that takes a lot of effort with the cost sharing
25 schedules.

1 With all the various census data and employers
2 participating, there's a requirement and obligation for us
3 to comfortable with that census data in the aggregate, and
4 in how it's being allocated out to the pension
5 liabilities, how it's allocated out to the individual
6 employers. And it takes time to do all that.

7 So it's very much -- our hours are based on a
8 buildup of experience and having served retirement
9 systems, and having lived this, and following a
10 substantive-based approach that's been taken in the past.

11 There are alternative approaches that could be
12 looked at in the future. The AICPA has put out a couple
13 of different approaches in helping employers and their
14 auditors in getting comfortable with these schedules. And
15 one of the approaches is more of a controls based
16 approach, where instead of for the agent plan opining on
17 each individual rate plan in that schedule, it would be to
18 step back and opine on it on the whole, on the totals, and
19 then to have a SOC 1 report done on the controls around
20 the maintenance of information and the allocation of
21 amounts to those individual rate plans.

22 So there's -- there is alternatives that can be
23 pursued and looked at that might down the road affect how
24 we might scope, and might affect hours, and ultimately
25 fees. And knowing those options are there is helpful.

1 But very much our fees are based on us understanding
2 what's required to take place in order to get information
3 audited in a quality fashion, so that we can make sure
4 we're adhering to the standards that we hold ourselves to
5 and the profession holds us to, and that it's information
6 that can be relied on.

7 CHAIRPERSON HOLLINGER: Thank you very much.

8 Mr. Slaton.

9 COMMITTEE MEMBER SLATON: Thank you, Madam Chair.

10 So I'd like you to expand a little bit on your
11 view regarding internal controls, and how you look at them
12 in terms of review. You're not auditing the internal
13 cont -- internal controls but you are reviewing the. So
14 would you comment about how you would -- what your
15 philosophy is in regard to that?

16 MR. MELCHER: So absolutely. Great question.

17 So you are correct, in the current environment,
18 we -- there is no requirement to test, what we call, the
19 operating effectiveness of internal controls to therein
20 reduce your substantive testing. It's on option, but
21 there's no requirement. And so one thing that we are
22 required to do, and always required to do, is to
23 understand the key significant controls, both at an entity
24 level, and then also on the key areas of the audit that
25 are key to those processes, and evaluate those for the

1 design. Are they designed correctly? Do you have
2 segregation of duties? If there's systems involved, are
3 those systems protected? And then also for their
4 implem -- implementation at a point during the year.

5 So the way I would put it is in those key areas
6 we need to understand the processes. We need to
7 understand the controls. We need to evaluate how they
8 developed the data that is then used to substantively
9 perform our procedures. But beyond that as far as testing
10 them for operating effectiveness, absent what Peter had
11 mentioned earlier were, there's an election made to take a
12 more controls based approach. That is generally how we
13 would approach that as part of the audit process.

14 COMMITTEE MEMBER SLATON: Okay. Thank you.

15 CHAIRPERSON HOLLINGER: Thank you.

16 Mr. Miller.

17 VICE CHAIRPERSON MILLER: Yeah. What are the
18 advantages or disadvantages to having in-house actuaries
19 versus subcontracting out for this work while performing
20 financial statement audits for CalPERS?

21 MR. MELCHER: So thank you very much for that
22 question. I'm particularly excited, because I get to turn
23 it over to Michael here, who has not had a chance to speak
24 yet.

25 MR. de LEON: Absolutely. Great. Thank you.

1 Yeah, again, Michael de Leon. Pleasure to meet
2 you all. And again, I lead our public sector pension and
3 OPEB actuarial practice for Deloitte.

4 What you have with Deloitte is a full-service
5 actuarial consultancy. So we don't have any outsourcing
6 that we related to this. We handle all of that in-house.
7 And, you know, what you get -- with the benefit of having
8 one team that has both the consultant and audit mindset is
9 the value of our synergies, and being able to work as one
10 team with our auditors.

11 You know, from a -- from a consulting
12 perspective, as you can see, you know, on the slide there
13 that's still up, we are recognized externally as a clear
14 leader in retirement benefits consulting. And what that
15 consultant side benefits you is that, you know, we
16 understand the problems that you're facing, the challenges
17 that you're dealing with, because -- you know, like on a
18 day-to-day basis, I'm working with clients similar to you
19 at state and local governments, with their pensions, their
20 retiree health challenges, you know, really just
21 addressing the same types of complexities that you're
22 facing.

23 So we sort of -- you know, we can empathize with
24 your concerns and the way -- the challenges you're
25 addressing.

1 From the audit perspective, you know, we bring --
2 it's ingrained in us, as part of Deloitte, because pretty
3 much -- the majority of our actuaries also provide audit
4 services. And, you know, so we've sort of built that in
5 from the ground up. We -- we've created annual training
6 sessions, for example, that all of our actuaries who
7 participate in audits have to -- have to complete.

8 We've developed procedures -- the actuaries have
9 actually developed the procedures, in concert with the
10 auditors, so that they're, you know, well thought out,
11 technically sound ways of addressing the actuarial
12 portions of your audit.

13 So, you know, bringing sort of best of both
14 worlds, and then working together with our auditors, as we
15 have as one team, is what I think will be the ultimate
16 benefit to CalPERS of having it in-house.

17 CHAIRPERSON HOLLINGER: Thank you.

18 Mr. Ruffino.

19 ACTING COMMITTEE MEMBER RUFFINO: Thank you,
20 Madam Chair. A two-part question. Do -- does your firm
21 currently perform any work for CalPERS, if so, and if
22 awarded this contract, how will your firm ensure its
23 independence to perform the financial statement audits?

24 MR. MELCHER: So I can answer the first question.
25 As part of going through the RFP process, we did what is

1 called a conflict check, which means we send out, in sort
2 of blast email, to anybody that is looking to or might be
3 providing services to CalPERS or its affiliates. And so
4 there is an ongoing discussion with our consulting team
5 about providing some, what we would call, minor valuation
6 support services for a very limited immaterial amount of
7 the portfolio.

8 We have already checked with them. We've
9 actually checked with our independence group. That amount
10 is once again determined to be immaterial, and therefore
11 would not impair our independence should that contract be
12 finalized. So that's the first question about the
13 services being provided.

14 What I would tell you is on the ongoing efforts,
15 we have a very robust system of controls to monitor to
16 independence. Any entity that is a restricted entity,
17 which is what you become if your under audit, enters into
18 a system. And that system then is integrated and linked
19 up with any affiliate, so that anytime anybody would want
20 to perform a service, they would then have to go through
21 myself or another delegate to see if that services was
22 permissible under the applicable standards.

23 In addition to that, on an individual level,
24 relationships are looked at. So depending on who might be
25 at the firm and what role, certain relationships are

1 permitted with CalPERS folks. Certain ones are not.

2 And so there's a -- there's a very robust system
3 of control that is implemented on a real-time basis to
4 monitor for independence at all times.

5 ACTING COMMITTEE MEMBER RUFFINO: Thank you.

6 CHAIRPERSON HOLLINGER: Thank you.

7 And could you please describe your firm's data
8 protection capabilities? You know, as the largest asset
9 owner and with over two million current active retirees
10 and health care benefits, that's a concern for us.

11 MR. MELCHER: So absolutely. So first, we have a
12 very large document that is available to all of us, and
13 then upon being selected is available actually to you
14 folks as well, that talks about several things.

15 One, we have double encryption for all of our
16 Deloitte software. So to -- just to put it mildly to --
17 for me to even get into my own work, I have to sort of
18 sign in and then sign in again. And it's encrypted once
19 and twice. And there is something called multi-factor
20 authentication, where we get codes sent to us personally
21 that we have to do to get in. So that's -- that's one
22 thing.

23 Secondary, Deloitte Connect, which I mentioned
24 earlier, which is the hub of the transmission of data
25 between CalPERS and our audit team meets the federal

1 standards for PII and PHI. So that -- that's where all
2 the data would be kept. And our people receive training
3 on privacy matters and things of that nature on an annual
4 basis.

5 And so beyond that, like I say, there's an 18 to
6 20 page document that goes through all the server items
7 and stuff like that. But yes, there is an immense amount
8 of data protection and data encryption that goes along
9 with everything that we use and we do for an audit.

10 CHAIRPERSON HOLLINGER: THANK you.

11 Mr. Slaton.

12 COMMITTEE MEMBER SLATON: Thank you.

13 So, you know, we're -- CalPERS is constantly
14 impacted by new laws and regulations. And I know you're a
15 large national firm, but what do you do to make sure that
16 the people who are working on our engagement here are up
17 to speed on those changes?

18 MR. MELCHER: Yes. So -- and I might turn this
19 over to Peter on some of the GASB-oriented items. But I
20 would say we have two -- two types of trainings, if you
21 will, and two types of pieces of information open to us.

22 On a real-time basis, on a weekly basis, we have
23 firm emails that come out and basically say here has
24 every -- here is everything that has changed. And that is
25 GASB, that is FASB, that is the IS -- IASB, it is sort of

1 worldwide. So we have that.

2 Secondarily, we have a saying that says,
3 "Deloitte Does That". And at the end of the day, we have
4 experts from everywhere in the firm across all industries
5 who do -- we have a regulatory practice who do this on a
6 daily basis. So to the extent that we have something set
7 up to get information about CalPERS or about California
8 law, we have automatic data feeds that come to my computer
9 where I can reach immediately and say, "Hey, Julie, I saw
10 something is going on in Sacramento. Can you let me know
11 what's going on"? And within an hour, I have an answer,
12 so we can make sure our team is immediately updated onto
13 that.

14 And that goes in addition to the large things
15 like tax reform and other things that impact, I would say,
16 all of our audit clients that happen on a national
17 training basis as well.

18 COMMITTEE MEMBER SLATON: Thank you.

19 CHAIRPERSON HOLLINGER: Okay. Time is up. Thank
20 you very much for your time. This concludes the 30-minute
21 interview. And I would like to thank all of you for your
22 time. And to please leave the auditorium now. Thank you
23 so much. Appreciate it.

24 (Thereupon Deloitte and Touche left the
25 auditorium)

1 (Thereupon KPMG entered the auditorium.)

2 CHAIRPERSON HOLLINGER: Thank you very much.

3 Pleas be -- we're just waiting for one or two Board
4 members to come back.

5 Just give us a few minutes. Thank you.

6 No, we're waiting for Bill.

7 One sec.

8 Welcome. Thank you for coming this afternoon.

9 We really appreciate your time and having you here. You
10 will have 10 minutes for your presentation. At the end of
11 10 minutes, we will have a 20-minute period for question
12 and answers. There's going to be a timed clock. If
13 you'll notice that to your left are buttons for your
14 microphone. You can tell when they're on, because there's
15 this little red dot. And as soon as you begin to speak,
16 the clock will start running.

17 One sec. I want to make sure the clock -- feel
18 free to start. We look forward to hearing from you.

19 MR. ROMANO: Good morning, Madam Chair, members
20 of the Committee. I know that I'm somewhat of a familiar
21 face at least to some of the Committee members. But for
22 the record, my name is Brock Romano. I'm the lead audit
23 engagement partner for our CalPERS team responsible for
24 all of the audit services.

25 On behalf of our team, I wanted to thank you for

1 the opportunity to present our qualifications to you
2 today. As you can see, we've assembled a representative
3 list of our key engagement team members, as well as some
4 members from our local California business unit office
5 leadership.

6 In the interests of sticking to the timed agenda,
7 three of us will be making the firm's formal remarks in
8 this 10 minutes. And the others will anxiously await
9 questions, at which time they'll introduce themselves,
10 their role on the team, as well as respond to the
11 question.

12 Today, you're going to hear a common theme from
13 us and that's trust and confidence in an experienced
14 engagement team supported by the vast resources of the
15 firm. At KPMG, we believe that that trust and confidence
16 is earned. Undoubtedly, you've heard from the other firms
17 how they plan to earn that trust and confidence. Only
18 KPMG as your incumbent has a demonstrated track record of
19 meeting your deliverables, thereby earning that trust and
20 confidence.

21 In just our first year as your auditors, we've
22 been able to demonstrate how a large firm can be nimble.
23 From the time we were hired in June, when we signed the
24 contract, to the time we delivered the CAFR in November
25 was a span of about five months. An audit of this size

1 and complexity traditionally should take somewhere between
2 seven and eight months. And if we're fortunate to retain
3 CalPERS as a client, our audit plan would start with field
4 work in April of this year.

5 Another example of the nimbleness of KPMG is in
6 December of this year, we were asked to accelerate one of
7 the deliverables, that's the GASB 75 OPEB report. We were
8 asked to do that, because one of the public agencies
9 needed that -- needed those reports -- that report to meet
10 some of their reporting requirements. And so we
11 reprioritized our audit effort, and we got that report out
12 about a month ahead of schedule from last year.

13 And because there was some anxiety at the time
14 between the public agencies and the questions that were
15 being asked, we actually went the extra step to make
16 contact with our counterparts of that public agency's
17 audit firm to let them know what the expectations and the
18 timelines were, and maybe to curtail the number of phone
19 calls that management was getting from those public
20 agencies.

21 I'm not sure we were successful in shorting the
22 number of phone calls that were arrived, but we certainly
23 got that audit report done in time. I also want to talk a
24 little bit about the benefits of working with a large
25 firm.

1 Our local California offices supplied the 75 plus
2 professionals who worked on this engagement this year. We
3 also have a dedicated national resource for our technical
4 accounting group, and our actuarial services. And while
5 oftentimes those technical resources act primarily as
6 an -- in an audit support role, there was a lot of
7 client-facing responsibility with our specialists this
8 career. Numerous phone calls. We even had several
9 on-site visits. The head of our national -- the
10 individual that heads our national technical group to help
11 us navigate some of the complex accounting pronouncements,
12 and just digest some of the complexities -- complexities
13 of CalPERS.

14 We also stuck to our commitment of no fee
15 surprises. And if it's fair game with the Committee, I'd
16 like to talk a little bit about fees. We've obviously
17 seen the fee proposals. And while we're the only bidder
18 who truly understands the scope of services involved in
19 meeting your scope requirements, we're not tone deaf to
20 the competition and the allure of a low-cost alternative.

21 So we're prepared today to lower our fees by 10
22 percent, and we're going to do that in a couple ways.
23 One, we're going to increase our participation from our
24 disabled veteran partner from just over three percent to
25 the -- a minimum of five percent. We're also going to

1 pull forward any of the planned audit efficiencies that we
2 hope to capture over the life of this contract. And while
3 it's uncertain whether we're ever going to be able to
4 realize those planned efficiencies, we're willing to take
5 that risk and make that as a commitment to CalPERS in a
6 demonstration of how we desire to forge a long-term
7 relationship with you.

8 The other point I want to make relative to fees
9 is we're the -- as your incumbent, there's no transition
10 cost with us. You've already made that investment in us.
11 Management has already shown us through the learning
12 curve. And I suspect that there are some members of
13 management that may be privately cringing at the thought
14 of having to do that again in such a short period of time.
15 But with KPMG, there's no -- there's no -- there's no
16 opportunity costs there. So we believe our fee reduction
17 plus the no transition costs will offer a compelling
18 alternative, at least as it relates to fees to our
19 competitors.

20 And in the Q&A session that follows, I'd be more
21 than happy to answer any questions the Committee might
22 have on fees. But in the interests of time I'm going to
23 turn it over to -- we have two other presenters. I'm
24 going to turn it over to Packy Kelly who's going to talk
25 about KPMG's investment in the public sector space, as

1 well as the California support of our CalPERS team.

2 MR. KELLY: Thank you, Brock and good afternoon.
3 I'm the head of audit for KPMG in Northern California. So
4 I have overall responsibility for all our audit resources
5 and the local resources that deliver your audit. I'm here
6 to emphasize that KPMG is dedicated to the public sector
7 space. While other firms have reduced their focus, we
8 have sustained that commitment to the public sector space.

9 Your team has dedicated their careers to serving
10 the public sector. And what that means is that decades of
11 experience that they have gained allows them to
12 effectively handle any type of specialized accounting and
13 reporting matter that they may need to address, with the
14 support of resources in our national office that are also
15 dedicated to the public sector.

16 Our asset management capability, another benefit
17 of working with a large global firm with a strong local
18 presence, also aligns with your priorities in successful
19 investment for the well-being of your members.

20 We have a global leadership position in asset
21 management with a dedicated group with experience in all
22 types of investments from simple level one equities to
23 hard-to-value hybrid instruments. CalPERS will
24 significantly continue to benefit from our asset
25 management group that is conveniently located nearby in

1 Walnut Creek.

2 I stand behind this team and will deliver the
3 resources for them to build on the success that they had
4 in last year and continue to provide an outstanding
5 service.

6 MS. AVIS: Thank you, Packy. My name is Lisa
7 Avis, and I will continue to serve as the lead managing
8 director on -- on this engagement. I have 20 years of
9 experience all in the government sector. Part of that
10 included a practice fellowship with the Governmental
11 Accounting Standards Board, and a rotation to our national
12 office.

13 I just want to touch on a couple of key points
14 that my colleagues -- my colleagues here said, because we
15 truly believe that our audit plan aligns with the
16 strategic goals and initiatives that you have in your
17 strategic plan.

18 So, you know, we are the incumbent. We audited
19 the CAFR. One thing noted in the CAFR is that it is one
20 of the core missions to invest in California. Well, by
21 working with us, you're essentially investing in
22 California, because we are based here in California. Our
23 office is two blocks away. Packy mentioned our commitment
24 across California and the Bay. Brock mentioned the 75
25 professionals. Those are jobs that we have here in

1 California, investing in California.

2 With the close proximity here, we have been here
3 for CalPERS when needed. This is a complex entity. And
4 trying to gain an understanding remotely it just can't
5 happen. You need to be here walking the halls to truly
6 understand what a complex entity this is.

7 Other initiatives include reducing complexity,
8 gaining efficiencies, improving productivity. We want to
9 work cohesively as a team and with CalPERS to gain some of
10 those efficiencies. You will see no decrease in
11 productivity because, as Brock stated, there are no
12 transition costs.

13 CalPERS is seen globally -- they're globally
14 recognized as a leader in the retirement systems. Other
15 retirement systems look to you. You're the benchmark for
16 what they want to achieve. You're a trendsetter and you
17 need a firm who understands you. And I think that's
18 reflective of the core team that we have there on the
19 slide.

20 Our subject matter professionals, they're not
21 just people we call upon every now and then. They are
22 part of our core team, because that's what an entity like
23 this needs.

24 In closing, I just want to highlight that, yes,
25 we have the experience. However, you need the right type

1 of experience. Our experience with GASB plans far exceed
2 those of FASB plans. Our experience with agent
3 multi-employer plans exceeds those of cost-sharing plans.
4 And our experience with CalPERS, we haven't seen anything
5 like CalPERS. You truly are unique. So like I said, you
6 need a firm who not only has the right experience, but you
7 need the relevant experience. And we are that firm.

8 So we want to thank you for the time we had to
9 present here and we'd like to open it up for any questions
10 that you may have.

11 CHAIRPERSON HOLLINGER: Thank you very much.

12 Okay. We'll set the clock for questions.

13 My first question is there were two PCAOB reports
14 showing significant deficiencies in a high percentage of
15 KPMG's 2016 and 2017 audits. Can you address that?

16 MR. KELLY: Yeah. Let me address that. I think
17 you're referring to the reports that were just released in
18 January of this year.

19 CHAIRPERSON HOLLINGER: Correct.

20 MR. KELLY: And those reports covered our '17 and
21 '16 reports, which were audits that were inspected in '15
22 an '16. And it did show that we had a higher degree of
23 findings than some of the other firms that are in our
24 class.

25 In the top six, there were others that were

1 higher than us, but we were not satisfied with those
2 results. And we've made significant investments to
3 address those areas, which are common across the
4 profession, as it relates to internal controls to select
5 for testing, and accounting, and auditing for estimates.

6 Those reports are on a lag. We know that the
7 inspections -- that we are making improvements, that the
8 inspections that we're just done in the 2018 cycle for the
9 2017 audits will show improvement. And so we're very
10 confident that the significant steps that we're making to
11 address those areas and increase our quality will provide
12 those results, and will have no ability on our ability --
13 no effect on our ability to effectively serve you.

14 CHAIRPERSON HOLLINGER: Thank you very much.

15 Ms. Paquin for Ms. Yee.

16 ACTING COMMITTEE MEMBER PAQUIN: Thank you.

17 Thank you. And thank ou for touching on your fees and
18 appreciate the offer to make the fee adjustment. I was
19 just curious if you could explain your original fees and
20 rationale for how you put together the staffing plan over
21 the five-year contract.

22 MR. ROMANO: Sure. And I -- thank you.

23 So our original plan was based on our experience
24 here. When we initially proposed back in last March, we
25 were kind of proposing a little blindly. When we put

1 together our audit plan for the first RFP, and continue
2 that audit plan for this RFP, it was really based on our
3 understanding of CalPERS, and the level of complexity, and
4 some of the complicating factors that go in here.

5 So I like to look at our fees through a different
6 prism. Our fees are based because we have the highest
7 knowledge of CalPERS, and what it takes to do the scope of
8 work here. At some point in time in our presentation, and
9 maybe this is a good time to talk about some of the
10 complexities that go into CalPERS.

11 And I want to maybe preface -- preface this a
12 little bit. Lisa touched upon the firm's experience. And
13 I think part of -- part of having the experience means
14 having the right relevant experience. And Lisa went
15 through that exercise with you. And at the end, she said
16 there's real nobody like CalPERS. And I'd like to -- I'd
17 like to share a personal experience, if I could, as to why
18 that's -- that's relevant.

19 Willis Towers Watson put together a list of the
20 300 largest pension plans. We filtered that by U.S.
21 government pension plans. Of the top 30 U.S. pension
22 plans, KPMG audits six of them. I work on five of them.
23 I'm the lead audit partner for CalPERS. I'm the lead
24 audit partner -- a previous lead audit partner for another
25 firm in that six. I'm the current re -- current

1 concurring review partner for two of those firms. And I'm
2 the GASB 68 specialist on the remaining -- on the
3 remaining firm.

4 And I'm going to tell you that there was nothing
5 in that -- in that experience with these very large plans
6 that prepared me for the level of complexity that we say
7 here at CalPERS, particularly in the agent plans. Your
8 PERF C plan, I would bore you to death, if I went into the
9 minutia of why that's complex. But that is a hugely
10 complex system, something that, quite frankly, I don't --
11 I hadn't seen before and our national office really had to
12 help us through that exercise.

13 But I do want to continue on that theme of
14 complexity. I've got a couple colleagues here that I've
15 asked to speak to some of the complexities that we saw,
16 especially on census and well -- and on the agent plans.
17 So I'm going to ask Brianne -- if I'm looking in the right
18 direction -- Brianne to maybe talk a little bit about the
19 census complexities and then we'll have Bridgett talk
20 about the agent plan complexities.

21 MS. WIESE: Great. Thanks, Brock. Thank you,
22 Committee, for having me here today. I'm thrilled to be
23 here. My name is Brianne, as Brock said. I'm an audit
24 managing director here in California. I have 16 years of
25 experience, all of which have been primarily serving the

1 government space such as yourself. So I -- I know what
2 it's like. I know the challenges you face.

3 As Brock alluded, I oversaw the census data
4 component of your audit. And on the surface I think this
5 appears simple. But you peel back the onion and there's
6 layers of complexity there.

7 The first is really the volume. We tested over
8 4,000 participants. And I think that that's about three
9 to four times what has historically been done. And we
10 felt that that was necessary to comply with firm or
11 professional standards. And it takes a small army to get
12 through that many people. It really does.

13 And this isn't an army that can be in some
14 windowless room in the back corner or some automated bot
15 that you could program to do this. These are -- this
16 needs a person. You need to get on the phone. You need
17 to contact public agencies. You need to contact schools.
18 You need to understand how they develop or how they gather
19 the information, how they record it, how they transmitted
20 it to you, where the risk points are. And you need to be
21 able to see the big picture. You need to understand how
22 CalPERS works. You need to be able to identify trends and
23 analytically address the data. The data is very
24 informative if you understand it, and if you understand
25 CalPERS. And we understand CalPERS.

1 And part of that is knowing where we think we can
2 gain efficiencies. And I think this is certainly an area
3 that should be more efficient and absolutely could be more
4 efficient. I believe we've provided management with
5 several ideas. And I won't bore you with all my ideas
6 today. I don't think we have time.

7 But I know that this is an area of improvement,
8 and it will be beneficial for management, beneficial for
9 everybody. I think we asked management for help with 500,
10 we call them, anomalies, things that we couldn't explain.
11 And that was down from, you know, talking to the public
12 agencies. So I think that efficiency in this area is key,
13 and it would generate benefits to management.

14 And I know that our commitment to you as partners
15 and our investments in you will generate that. And I look
16 forward to implementing that.

17 CHAIRPERSON HOLLINGER: Mr. Slaton.

18 COMMITTEE MEMBER SLATON: Yeah. Let me find
19 my -- there is my question.

20 MR. ROMANO: No. We wanted to maybe continue
21 that theme, if we could --

22 CHAIRPERSON HOLLINGER: Oh, I apologize.

23 MR. ROMANO: -- just for a minute with Bridgett,
24 if that's acceptable to the Committee.

25 CHAIRPERSON HOLLINGER: Go ahead. I apologize.

1 MR. ROMANO: Thank you.

2 MS. GYORFI: No problem. My name Bridgett
3 Gyorfi. I'm a senior manager in our Sacramento office.
4 And I was the lead engagement manager for CalPERS.

5 I did a rotation in our national office focusing
6 on pension plans. And I also have over 11 years of audit
7 experience, including pension plans and government. So
8 the area I wanted to talk to you guys about is your agent
9 plans. So you guys have to agent plans. You have PERF A
10 and you have OPEB. For those two plans combined, we issue
11 two audit opinions, but that two audit opinions covers
12 almost a thousand like mini-opinions, because we're
13 opining on each one of those employers and those
14 schedules.

15 So that essentially is about 1,000 mini audits
16 that we have to do. And like Brock mentioned in our -- in
17 one of our ways to lower our fees for you guys and
18 increase our hours with the disabled veterans, this is an
19 area that we can have them help us with.

20 But there is also some efficiency that can be
21 gained here. Currently, the way that it's set up, we have
22 to opine on each employer. The standards allow us to take
23 a different approach. And we can have our IRM team get
24 involved, our -- so our IT folks, and they can help us do
25 a SOC 1 type 2 report. And we can issue one opinion over

1 PERF A. So instead of having approximately 435 opinions
2 for PERF A, you would have one, which would allow us to
3 gain efficiencies. It would be easier for the CalPERS
4 financial reporting group, and also gain efficiencies on
5 the audit side.

6 MR. ROMANO: And I just wanted to make one -- one
7 final point on this. I know it's a long answer to a
8 question, but there's a lot of key elements here. You had
9 talked about our level of effort. Our level of effort
10 this year includes an incremental effort as it relates to
11 our IT resources. So our audit next year includes an
12 incremental level of effort related to our IT resources,
13 so we can start to frame out whether we could -- whether
14 we could achieve the type of reliance on your IT system
15 that would allow us to offer you the other option of
16 instead of auditing a thousand mini-plans, to have --
17 follow the alternative method, which we think would lead
18 to efficiencies, potentially lower fees. So we're making
19 an investment in a little bit of an unknown as part of the
20 relationship building here, because we think it's the best
21 long-term solution for CalPERS.

22 Our fee proposal was not put together for -- to
23 impress you with a one-year fee. It was put together to
24 show you the demonstration of what we could do over a
25 long-term relationship, and that's what I think is in the

1 best interests of CalPERS.

2 CHAIRPERSON HOLLINGER: Go ahead, Mr. Slaton.

3 COMMITTEE MEMBER SLATON: Okay. Could you talk a
4 bit about your viewpoint of the extent to which you look
5 at internal controls. You know, you're not being asked to
6 audit internal controls, but you do examine them. You do
7 look at them. So can you kind of give us a little bit of
8 your philosophy regarding internal controls?

9 MR. ROMANO: Sure. I think internal controls are
10 key, and I think -- I think getting our IT folks involved
11 to testing some of your IT controls is critical. I think
12 that a lot of the public agencies look at CalPERS as
13 somewhat of an outsourced organization. And my|CalPERS is
14 the reporting engine of that membership management data.

15 Having -- having our IT specialist take a look
16 and evaluate and test those IT controls I think would be a
17 value-add, not only to CalPERS, but also a value-add to
18 your public agencies.

19 This year, we were drinking through a fire hose
20 quite literally from the time we were hired in the middle
21 of June to get all the deliverables together. So we
22 focused a little bit more on a substantive approach this
23 year just, because of the nature -- of the hire and the
24 timeline involved. But our approach is -- is that
25 understanding controls is the value-add that we can add to

1 you. So we did test -- we did test a lot of those
2 controls during the course of the audit. We didn't test
3 as many of them as we would have liked to, just because of
4 the circumstances that we were hiring and getting the
5 audit done. But our -- we were -- we're not going to
6 issue an opinion on internal controls, but they're going
7 to be a key element of our audit going forward.

8 CHAIRPERSON HOLLINGER: Thank you.

9 Mr. Miller.

10 VICE CHAIRPERSON MILLER: Yeah. What are the
11 advantages, disadvantages to having in-house actuaries
12 versus subcontracting for this work while performing
13 financial audits for CalPERS?

14 MR. EISENSTEIN: Thank you for the question. My
15 name is Steve Eisenstein. And I'm one of the actuaries
16 that's part of your team. I am part of KPMG's audit
17 practice. I've been here -- been practicing as an actuary
18 for 32 years. Over half of that time has been with big
19 four accounting firms.

20 And we're -- within my role there has really been
21 to communicate both complex and technical information to
22 our clients, such as CalPERS, as well as to the audit
23 teams. To answer your question directly, I think that the
24 experience that we have within our firm, with our
25 actuaries -- and we have five actuaries that serve CalPERS

1 across a variety of areas. Some of those actuaries are on
2 the pension side, such as myself. You have actuaries
3 working with you on the self-funded health care, and
4 actuaries working with you on the long-term care.

5 We bring our experience to the table. We work
6 very closely with our audit brethren, with our Department
7 of Professional Practice. And in doing so, we also are
8 very focused in on the accounting standards. This is what
9 we do. So we're not -- while we have broad experience
10 from all of our years of experience doing different
11 things, being inside the accounting firm environment
12 allows us to focus in on the accounting standards and the
13 specifics when it comes to GASB of what is needed for
14 CalPERS in order to be able to provide the type of services
15 that help you, they help our audit team get you to the
16 right answer, and get you the highest quality audit that
17 we can get you to.

18 VICE CHAIRPERSON MILLER: Thank you.

19 CHAIRPERSON HOLLINGER: Thank you.

20 And can you describe for me your firm's data
21 protection capabilities?

22 MR. ROMANO: Yeah. So KPMG believes that one of
23 the most valuable items that come through our hands is
24 your -- is your data. And it comes through us -- it comes
25 through to us in a variety of ways. The most -- the most

1 sensitive area is in the area of the census work. And
2 while that work is not the most complex work. It's the
3 type of that we can't entrust to subcontractors or folks
4 that -- that don't understand and appreciate the need to
5 protect that data.

6 We also -- so we spend a lot of time with our
7 census team making sure they understand the type of
8 information that they're handling, and how sensitive that
9 information is. And we take steps to make sure that that
10 data is appropriately received through our encrypted
11 portal. So the public agencies are permitted, through our
12 technology, to send data to us electronically. It's over
13 our network through -- subject to our security protocols.
14 We receive it, we inventory it, and then we test it, and
15 archive it.

16 We're also utilizing CalPERS systems to the
17 extent possible. So to the extent we don't need to take
18 data out of your system, we use my|CalPERS. And we were
19 given dedicated access to my|CalPERS, so we could log on
20 on-site. Another reason why having local resources is
21 important, because a lot of the work has to physically be
22 done here. Because -- because of the concerns about
23 technology and sensitivity of safeguarding of data, a lot
24 of the data is -- is actually accessed on your networks
25 here on-site with our team members.

1 CHAIRPERSON HOLLINGER: Thank you very much.

2 Ms. Brown.

3 COMMITTEE MEMBER BROWN: Thank you. I know
4 you've probably addressed this in the opening comments,
5 but let me go ahead and ask the question again. What sets
6 your firm apart from other public accounting firms and why
7 should we select your firm.

8 MR. ROMANO: Excellent. I think that's an
9 excellent question. And I think --

10 (Laughter.)

11 MR. ROMANO: And I'm going to -- I'm just going
12 to come out and say it. I think we care -- we care
13 about -- we care deeply about the relationship. And I --
14 I gave an example in my opening remarks purposely as a --
15 as a -- as an example of what we think differentiates us
16 from the other accounting firm. There was a -- there was
17 anxiety -- anxious moment in December when it was realized
18 that one of your public agencies needed a report that
19 wasn't scheduled to be done until the end of February.
20 And there was a lot of angst over that. And while we
21 assured everybody that we would get that report done in
22 time for their reporting needs, we went the extra step and
23 reached out -- we offered to reach out directly to that
24 public agency and speak to that -- to that management. It
25 was advised that we don't.

1 We then -- we then offered to reach out to our
2 counterparts at the CPA firm, so we could -- we could help
3 manage the expectations, so that they could help manage
4 the expectations of your clients. Something that wasn't
5 require, wasn't necessary. Something we thought was
6 important to the relationship. And I think it's an
7 example of -- of the degree of -- of client-centric
8 service that KPMG kind of breathes into you. Having been
9 here 30 years, I truly believe that this team, if I'm bold
10 enough to say it, cares -- cares as deeply as your -- in
11 your success as we do ours.

12 COMMITTEE MEMBER BROWN: Thank you.

13 MR. KELLY: This team has the skill and will to
14 serve you. They've been preparing their whole careers for
15 this opportunity. And they've delivered for you, and have
16 the passion, and the desire, and the full scope of skill
17 sets and capabilities to meet all your needs with the
18 combination of specialists, with the combination of public
19 sector experience, and with the combination of industry
20 experience.

21 So we know in working in professional services
22 that we have strong competitors and it comes down to the
23 skill and the will of the team that's before you today.

24 MR. BLACKMAN: And if I can just add one more
25 comment to that. So I'm Seth Blackman.

1 Sorry.

2 So I'm an audit partner in our asset management
3 practice located here in the Bay Area. And one
4 differentiating factor that I see day in day out is the
5 size, and depth, and breadth of our investments team. So
6 our asset management team audits products across the
7 spectrum from domestic U.S. equities to the most complex
8 derivative transactions across the globe.

9 We -- KPMG has the largest asset management
10 practice here and that we're here to serve you. So this
11 past year was an effort that we had 25 dedicated local
12 professionals within our asset management team here in
13 Northern California working with you. So I think that
14 that really aligns very well with CalPERS and your
15 mission, and really is one of the major reasons why I
16 think that we're best suited to continue with your audit
17 work.

18 COMMITTEE MEMBER BROWN: Thank you.

19 CHAIRPERSON HOLLINGER: Thank you.

20 I see no further questions. Oh. Oh. I'm,
21 sorry, Bill. It doesn't show up. Go ahead.

22 COMMITTEE MEMBER SLATON: Okay. So, as you know,
23 CalPERS, like all pension funds, are impacted by new
24 regulations, and by new laws. And we know you're a big --
25 you know, you're a huge firm. But how do you assure

1 yourself that the people who are working on our engagement
2 are up to speed?

3 MR. KELLY: That's the industry specialization
4 that we talk to. We have a dedicated group in our
5 national office that follows new developments and puts out
6 thought leadership. And it's not just for our team. It's
7 for also bringing insights to your team. That is the
8 number one benefit of having that industry specialization.
9 Day in and day out, they are living and breathing the
10 issues that are going to impact your organization and have
11 a duty to stay current with that, and have a
12 responsibility as part of the service that we deliver to
13 share it, so that you have the benefit of all the deep
14 experience that we have.

15 If that is not transferring in dialogue, if
16 that's not coming to life in terms of insights, then we're
17 not doing our job. And we see that as our duty and
18 responsibility as part of providing an outstanding
19 service. An we have the resources and the capabilities to
20 follow the complex regulations as they're issued.

21 CHAIRPERSON HOLLINGER: Thank you. Sorry your
22 time is up. I wanted to thank you very much and for being
23 here. And now I'll ask you to leave the auditorium.
24 Thank you for your time.

25 (Thereupon KPMG left the auditorium.)

1 CHAIRPERSON HOLLINGER: Thank you.

2 One second. I just want to wait till the door is
3 shut. Thank you so much.

4 Okay. We will now determine an interview score
5 for each of the finalists. And the maximum score is 700.
6 And I think what makes the most sense here is maybe for us
7 to have initially a conversation on who we thought did the
8 best job. Because what Bill and I figured out in the RFP
9 process is you can be a low bid and it scales it.

10 So these are -- I'll just start with my thoughts.
11 And my thoughts are this, my concern with KPMG is the
12 headline risk because they have the -- a significant
13 percentage of their audits in 2016 and 2017 were
14 deficient. And I believe their trial started today. So I
15 have a concern about them.

16 The firm that I clearly -- Matt, is -- is that
17 correct regarding KPMG? That's -- I mean, I think their
18 trial is starting today and it had to do with their audit.

19 GENERAL COUNSEL JACOBS: I missed the question.
20 I'm sorry.

21 CHAIRPERSON HOLLINGER: Oh. I'm just saying my
22 concern with KPMG was that they had a significant
23 percentage of their audits were considered deficient in
24 2016 and 2017.

25 GENERAL COUNSEL JACOBS: That's -- those are the

1 correct years, yes.

2 CHAIRPERSON HOLLINGER: Yeah.

3 GENERAL COUNSEL JACOBS: The PCAOB came out with
4 reports in January of this year --

5 CHAIRPERSON HOLLINGER: Yeah.

6 GENERAL COUNSEL JACOBS: -- with that finding.

7 CHAIRPERSON HOLLINGER: So my concern I just --

8 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: And
9 the trial for the audit partners started the week. I
10 don't think it was today. It was this week.

11 CHAIRPERSON HOLLINGER: Pardon, Marlene?

12 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: The
13 trial --

14 CHAIRPERSON HOLLINGER: Yeah, the trial.

15 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
16 -- started this week.

17 CHAIRPERSON HOLLINGER: So my -- my concern is I
18 don't think we need anymore headline risk. And the way I
19 saw it, I was most impressed with Deloitte's knowledge on
20 the investment side of the team. And I like -- does
21 Deloitte have an office here in Sacramento? Yeah, they
22 have an office. I know KPMG did. I felt the firm out
23 of -- are they out of Seattle, the other firm? You know,
24 with getting his California licensing, and I'm not sure
25 they had the same depth and breadth and also cyber

1 protection.

2 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: I
3 just wanted to make sure that everybody new that this is
4 open session.

5 CHAIRPERSON HOLLINGER: Okay. Ms. Paquin.

6 ACTING COMMITTEE MEMBER PAQUIN: Thank you.

7 I just wanted to ask staff a clarifying question.
8 So when the KPMG team said during their opening remarks
9 that they would lower their proposed rate, does that mean
10 that you need to rescore them right now or are you scoring
11 them based on the fees they submitted in their proposal?

12 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

13 They're scored on the fees that are submitted.
14 They also do not get to change their score for the DVBE
15 participation. However, you do have a question in your
16 interview process regarding fees. And so what they
17 offered to you can be a consideration in your score for
18 the interview, based upon that fee question.

19 ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank
20 you. I wanted say, also I was very impressed with
21 Deloitte. I think the fact that they have a Sacramento
22 office. They have a national footprint. They have
23 invested quite a bit in their data analytics. They have
24 secure technology to safeguard our data, and they have a
25 lot of expertise, both on the actuary side and also with

1 the valuation of the assets. I thought it was very
2 impressive. And I do share your concerns about the trial
3 that just started recently.

4 CHAIRPERSON HOLLINGER: Okay. Thank you.
5 Mr. Miller.

6 VICE CHAIRPERSON MILLER: I echo my colleagues'
7 comments. I also noted that, you know, while KPMG, partly
8 in the context of, you know, offering fee relief,
9 mentioned some of the strategies they might have for --
10 for dealing with that. But I noted that both CLA and
11 Deloitte really specifically identified the analytic
12 capabilities, and the application to some of that is very
13 efficiencies, with reducing things from a thousand, you
14 know, Micro-audits to one. Those type of things.

15 And it just seemed like they were proactive at
16 addressing those in terms of their responses to our
17 questions here. So I found that both compelling for them
18 and also disappointing that KPMG did not really approach
19 it that way. And I did feel Deloitte overall had a real
20 edge, both on the security, the investment stuff, but also
21 the analytics and their capabilities in terms of data
22 security and analytics as -- in the context specifically
23 of the jobs we're asking them to do, they really did their
24 homework.

25 CHAIRPERSON HOLLINGER: Ms. Brown.

1 COMMITTEE MEMBER BROWN: Thank you.

2 This is my first time interviewing large --
3 really large audit firms like this. And I just wanted to
4 go through just a couple of my thoughts. The first team
5 we interviewed, BDO, I -- you know, I like the idea that
6 they had -- that what sets them apart is they had
7 solutions to problems. The concern for me is that they
8 didn't seem to have a lot of experience. They talked
9 about Delaware, Alaska, and City of Houston. I just don't
10 think they have the relative size, experience.

11 The next firm that came in CliftonLarson, it
12 sounds like we got an amazing price, but they also might
13 be truly underestimating the complexity of CalPERS. And a
14 concern that only the -- Thomas, the main partner, spoke,
15 and it looked like everybody else was decorations there.
16 I didn't necessarily like that.

17 I was really impressed with Deloitte. They gave
18 a great presentation. They -- it seemed like they worked
19 together. They seemed like they're a team. They worked
20 together. It's not like they pulled this team together to
21 present. It looks like they seem to work together as a
22 team. Like to hear the women talk. They were very --
23 very nerd, very experienced. I love that in and auditor.

24 (Laughter.)

25 COMMITTEE MEMBER BROWN: No, it's important.

1 It's important that they love this stuff.

2 And then I have the -- I will echo the same
3 concerns that our Chair and Ms. Paquin said about KPMG. I
4 just think it makes sense for us to step back a little bit
5 on that.

6 Thank you.

7 CHAIRPERSON HOLLINGER: Thank you.

8 Mr. Slaton.

9 COMMITTEE MEMBER SLATON: Yeah. I think I am of
10 the same opinion that Deloitte really shined in this
11 effort, and certainly would do us a good job. You know, I
12 was intrigued by CliftonLarson and their approach to --
13 regarding the analytics. But, you know, I only heard from
14 one person.

15 CHAIRPERSON HOLLINGER: Yeah, right.

16 COMMITTEE MEMBER SLATON: So that was a little
17 strange as to why the other people were here to be -- for
18 the interview and weren't given parts to -- so we could --
19 so we could get a -- more of a broad feeling about the
20 team that's being brought in. Because I know although
21 it's his daughter's birthday --

22 (Laughter.)

23 COMMITTEE MEMBER SLATON: -- you know, I'm not
24 sure that -- that sways very much. It's cute, but -- so I
25 want to ask the rest of the group, because I can tell

1 obviously from the commentary that Deloitte is in -- is in
2 the top position. But the way the procurement process
3 works is that you're going to enter into negotiations with
4 whoever comes out on top.

5 If those negotiations are not successful, you're
6 going to go to the second one. So, to me, an important
7 question now is if you did a ranking now, and you --
8 Deloitte you put out of -- you know, in a separate
9 category, because everybody seems to have the consensus
10 they're the best, how would you rank the other three, so
11 that we could at least, when we give -- and I do have a
12 suggestion for some points. But I would like it to
13 represent obviously the consensus of the group, so that
14 when it comes out, we have a number two in case, it -- the
15 negotiations are not successful we're comfortable with who
16 the second choice would be. So I would suggest that. Is
17 that okay for me to speak -- comment on that?

18 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

19 Certainly. You would take the existing score
20 that they have and you would add your interview score and
21 the total score, not just the interview score.

22 COMMITTEE MEMBER SLATON: Right.

23 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

24 The total score would be who would get first --

25 COMMITTEE MEMBER SLATON: Correct.

1 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
2 -- second, third, and fourth.

3 COMMITTEE MEMBER SLATON: Correct.

4 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
5 And if the negotiations were unsuccessful with
6 the first place company, then we could move to the second
7 place company.

8 COMMITTEE MEMBER SLATON: So that's the question
9 I leave for the rest of the Committee members.

10 CHAIRPERSON HOLLINGER: So then do I entertain a
11 motion -- oh, I'm sorry, Mr. Miller.

12 COMMITTEE MEMBER BROWN: He want's to know we
13 think is second best.

14 COMMITTEE MEMBER SLATON: No, I want to -- I want
15 to see who the group thinks --

16 COMMITTEE MEMBER BROWN: Is second best.

17 COMMITTEE MEMBER SLATON: -- would be second
18 best.

19 CHAIRPERSON HOLLINGER: Oh.

20 VICE CHAIRPERSON MILLER: Yeah. I'll speak to
21 that.

22 CHAIRPERSON HOLLINGER: Go ahead.

23 VICE CHAIRPERSON MILLER: I really think I would
24 put KPMG third, frankly, for all the reasons stated. And
25 I think that CLA, if it wasn't for my concern that they

1 had kind of -- they're arguing that they know they can do
2 this for 40 percent less. I didn't find that compelling.
3 But on all -- in just scoring their questions, to me, they
4 were number two, just in terms of their response to this
5 interview to me.

6 CHAIRPERSON HOLLINGER: I know, for me, I would
7 probably put BDO number two, because I felt that, number
8 one, they don't have the presence here in California. And
9 I wasn't sure if it was a one-man show or not. I didn't
10 see the collaboration in the team.

11 But Ms. Paquin.

12 ACTING COMMITTEE MEMBER PAQUIN: I would agree
13 that I would put BDO as number two. I thought that they
14 did come in with a strong team. And I think that their
15 estimation of the number of hours it would take to do this
16 engagement was more realistic.

17 COMMITTEE MEMBER BROWN: The same.

18 CHAIRPERSON HOLLINGER: The same. Okay.

19 COMMITTEE MEMBER SLATON: Okay. So I have --

20 CHAIRPERSON HOLLINGER: So I get a motion?

21 COMMITTEE MEMBER SLATON: -- I have a motion to
22 make.

23 CHAIRPERSON HOLLINGER: Okay. Mr. Slaton.

24 COMMITTEE MEMBER SLATON: Let me see if I can --
25 if my math is --

1 CHAIRPERSON HOLLINGER: For some reason your mic
2 never goes off, so its --

3 (Laughter.)

4 COMMITTEE MEMBER SLATON: Okay. All right. So I
5 would propose in the motion that CliftonLarson receive 520
6 points. And by my math, that's -- that becomes 870. I
7 would propose that BDO receive 610 points. That would put
8 them at 876. I would propose that Deloitte receive 680
9 points, which by my math would put them at 891. And that
10 KPMG receive 660 points, which would put them at 862. So
11 by -- without having to do a whole bunch of math, does the
12 staff agree with my math?

13 CHAIRPERSON HOLLINGER: Yeah.

14 COMMITTEE MEMBER SLATON: And I think that would
15 rank Deloitte as number one, BDO as number 2.

16 COMMITTEE MEMBER BROWN: No. Kim is saying no.

17 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

18 No. You said 660 for KPMG, so you would be
19 ranking KPMG as number two, Mr. Slaton.

20 COMMITTEE MEMBER SLATON: Eight -- I don't think
21 so. BDO would have 610. That would give them --

22 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

23 Oh, I'm sorry. You're talking total score.

24 I was talking interview score.

25 COMMITTEE MEMBER SLATON: I'm talking total

1 score. I'm not talking about the -- I'm talking about
2 total score, because this is based on total score. Am I
3 correct?

4 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

5 That's correct. Your total scores are correct.
6 I was just making sure that the -- your interview scores,
7 as discussed by the Committee, reflected what the
8 Committee had been discussing.

9 COMMITTEE MEMBER SLATON: Right. So that would
10 mean that Deloitte would be ranked number one at 891, BDO
11 would ranked number 2 at 876, CliftonLarson would be
12 ranked number three at 870, and KPMG would be ranked four
13 at 862. Is my math correct?

14 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
15 Yes, your math is correct.

16 COMMITTEE MEMBER SLATON: Okay. So that's --

17 CHAIRPERSON HOLLINGER: So that gives us --

18 COMMITTEE MEMBER BROWN: Are you making a motion?

19 COMMITTEE MEMBER SLATON: So my motion is to
20 award -- here's my motion, because they have to do the
21 calculation and announce the award.

22 COMMITTEE MEMBER BROWN: Right.

23 COMMITTEE MEMBER SLATON: That CliftonLarson
24 receive 520 points from the interview, that BDO receive
25 610 points from the interview, that Deloitte receive 680

1 points from the -- for the interview, and KPMG receive 660
2 points.

3 COMMITTEE MEMBER BROWN: Second.

4 CHAIRPERSON HOLLINGER: Okay. All those in
5 favor?

6 (Ayes.)

7 CHAIRPERSON HOLLINGER: Motion carries.

8 COMMITTEE MEMBER SLATON: Okay. Now, you
9 officially determine when we call them back in, is that
10 correct? Oh, I'm sorry. I'm not Chairing this Committee.

11 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
12 Can you give me maybe a five minute break to
13 update the documents.

14 COMMITTEE MEMBER SLATON: You've got to turn your
15 mic on. We can't hear you.

16 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
17 Oh, sorry. My finger was hovering over it. I
18 guess I just didn't push it.

19 If we could take maybe a five minute break, so
20 that Belize can update her paperwork and we can bring the
21 companies in, that would be great, Madam Chair.

22 CHAIRPERSON HOLLINGER: Okay.

23 OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
24 Thank you.

25 (Off record: 4:53 p.m.)

1 (Thereupon a recess was taken.)

2 (On record: 4:58 p.m.)

3 CHAIRPERSON HOLLINGER: Okay. Staff has now
4 completed the total scores. At this time, I would like to
5 ask Beliz Chappuie, Chief Auditor, to please announce the
6 final total score for each finalist.

7 CHIEF AUDITOR CHAPPUIE: Thank you, Madam Chair.
8 I will now read the interview scores for each finalist in
9 alphabetical order. BDO received 620 points for their
10 interview score. CliftonLarsonAllen received 520 points
11 for their interview score. Deloitte & Touche received
12 800 -- 680 points for their interview score. KPMG
13 received 660 points for their interview score.

14 Combined with their preliminary total score, BDO
15 received a total score of 876 points. CliftonLarsonAllen
16 received a total score of 870 points. Deloitte & Touche
17 received a total score of 891 points. KPMG received a
18 total score of 862 points.

19 Madam Chair, the finalist with the highest total
20 score is Deloitte. Thank you. Deloitte & Touche. Thank
21 you.

22 CHAIRPERSON HOLLINGER: Okay. So I will now
23 entertain a motion for a recommendation to the Board.

24 Do I need --

25 CHIEF AUDITOR CHAPPUIE: Yes.

1 CHAIRPERSON HOLLINGER: Okay. So. Mr. Slaton.
2 Oh, sorry.

3 COMMITTEE MEMBER SLATON: I move that we award
4 the contract to Deloitte.

5 VICE CHAIRPERSON MILLER: Second.

6 COMMITTEE MEMBER SLATON: And obviously, the
7 instructionS are to negotiate a contract. And if not,
8 then you go to the next highest scored bidder, correct?
9 That's the motion.

10 VICE CHAIRPERSON MILLER: I'll second that.

11 CHAIRPERSON HOLLINGER: All those in favor?

12 (Ayes.)

13 CHAIRPERSON HOLLINGER: Motion passes.

14 I remind all members of the Committee and the
15 finalists of the restricted contact policy under
16 Government Code section 20153. The interviews are
17 adjourned. Thank you very much.

18 And now we will move to --

19 COMMITTEE MEMBER SLATON: You have summary of
20 Committee direction or is there more on the agenda for the
21 open session.

22 CHAIRPERSON HOLLINGER: Where is my agenda?

23 Okay. Next item on the agenda, Item 8a,
24 Enterprise Risk Management Plan Update. Mr. Forrest
25 Grimes.

1 (Thereupon an overhead presentation was
2 Presented as follows.)

3 CHIEF RISK OFFICER GRIMES: Good afternoon, Madam
4 Chair, Committee members. I'm going to keep this really
5 short, after all of those questions that you asked. If
6 you could turn to page 57 of your Board Books, please.
7 And the exhibit is on the screen as well.

8 If you could -- simply, this is really an update
9 of our workplan that you approved in June of 2018. And if
10 you could peruse basically that page and ask me if you
11 have any questions regarding any of the things that we've
12 been doing, I'd be happy to answer questions that you
13 have. If you have a question left in your after that
14 actually.

15 CHAIRPERSON HOLLINGER: I see no questions.
16 Seeing no questions. Okay.

17 Then I guess we move -- is there anything else,
18 Mr. Grimes?

19 CHIEF RISK OFFICER GRIMES: No, that's it. Thank
20 you very much.

21 CHAIRPERSON HOLLINGER: Okay. Thank you.

22 8b, Ms. D'Adamo, the Enterprise Compliance
23 2018-2019 Mid-Year Plan Update.

24 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
25 Yes. Good afternoon. Thanks, everybody, for

1 hanging with us. We're almost there. For Item 8b what
2 you have, this is not a duplicate, per se, of the
3 Enterprise Risk Mid-Year Plan, but it is the format that
4 they use. So if you recall when we came to you in June
5 and gave you our plan, it was a narrative form. It was a
6 lot more in terms of the narrative part. What we've done
7 is we've adopted the format that the Risk folks use the
8 dashboard. We think it looks very good. We think it's
9 easy to understand. And we think that it really
10 encapsuli -- encapsulates the work that we've done, as
11 well as where we're at with respect to this point in the
12 calendar year.

13 So like Forrest, I would say, I'll take any
14 questions, if anyone has any questions about any of the
15 items. Otherwise, this is our mid-year update.

16 CHAIRPERSON HOLLINGER: Okay. Seeing no
17 questions. Ms. Brown.

18 COMMITTEE MEMBER BROWN: Yeah, I have a question
19 about something else.

20 CHAIRPERSON HOLLINGER: Oh. Okay. So we're
21 almost on summary of committee direction, so if you have a
22 question on something else?

23 COMMITTEE MEMBER BROWN: I do.

24 CHAIRPERSON HOLLINGER: Okay. Ms. Brown.

25 COMMITTEE MEMBER BROWN: Thank you.

1 Since I knew we had a lot to go through, I didn't
2 ask a question on something that was on information
3 consent, 6e. And maybe you could just get back to us at
4 some point in the future. It was Attachment 1, page 12 of
5 18. And I'm constantly looking at the ethics helpline.
6 And it looks like we had a big spike in December. And
7 what I don't know is if we always have that big spike in
8 December or if it's just some -- because I only see one
9 year here, right, so I don't know if we always get a --
10 the days open is 170 for issues. And so if you could just
11 get back to us at some point, unless you automatically
12 know that answer, that would be great.

13 Thank you.

14 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

15 Well, I think I might be able to give you some
16 information on this.

17 COMMITTEE MEMBER BROWN: It's just that big blue
18 bar really stands out.

19 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

20 Yes. Well, I think that in terms of -- let me
21 just get to my notes on slide 12. Okay. So here we say
22 that the average number of days open for complaints has
23 increased over the 12-month period. And that's because
24 the complaints that have remained open for a longer period
25 of time now have a larger impact on the average due to the

1 decrease in total open complaints.

2 So essentially, we're closing complaints faster
3 at different types of complaints. And if you look, our
4 RBA, our retirement benefits and abuse, complaints tend to
5 be open a lot longer. Those are the complaints that are
6 lodged against our public agency partners. And so there's
7 a lot of back and forth that occurs in trying to
8 understand and investigate and then close those
9 complaints.

10 So as we continue to close other types of
11 complaints, those complaints stay open longer, and
12 therefore it increases the trend line in terms of the
13 average period of complaints that are opened.

14 COMMITTEE MEMBER BROWN: Thank you. If I go back
15 a year, will I find the same graph going back several
16 years, do you think, if I compare?

17 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

18 You'll find the same graph, but I'm not sure what
19 it will say.

20 COMMITTEE MEMBER BROWN: Okay. I'm just -- I'm
21 looking --

22 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: But
23 you can go -- you're welcome to go back and look.

24 COMMITTEE MEMBER BROWN: Oh, that's what I wanted
25 to do or you could do that for us.

1 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: I
2 can do that too, yes.

3 COMMITTEE MEMBER BROWN: Thank you.

4 I just want to see if it's kind of normal
5 pattern, or if this is the anomaly that we should be
6 concerned about.

7 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

8 Yes. And I think -- I would agree, I think that
9 in this instance what we would be looking at is the
10 average number of complaints that we closed during that
11 period, because that's really going to dictate whether the
12 trend line goes like this or if it stays like this.

13 COMMITTEE MEMBER BROWN: Right.

14 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: But
15 I can get back to you with that.

16 COMMITTEE MEMBER BROWN: Thanks. Appreciate
17 that.

18 CHAIRPERSON HOLLINGER: Thank you.

19 And the next item on the agenda is the Summary of
20 Committee Direction.

21 I have not been given any public comment.
22 There's no public comment -- any public comment. There's
23 no one here.

24 (Laughter.)

25 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: Up

1 until -- up until Ms. Brown's question, I had no Committee
2 direction, but I think I do now.

3 CHAIRPERSON HOLLINGER: Okay. Yes.

4 Meeting adjourned.

5 (Thereupon the California Public Employees'
6 Retirement System, Board of Administration,
7 Risk & Audit Committee open session
8 meeting adjourned at 5:06 p.m.)

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

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

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

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

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

16 IN WITNESS WHEREOF, I have hereunto set my hand
17 this 26th day of February, 2019.

18
19
20 

21
22 JAMES F. PETERS, CSR
23 Certified Shorthand Reporter
24 License No. 10063
25