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
APPEARANCES CONTINUED

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
<table>
<thead>
<tr>
<th>INDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAGE</td>
</tr>
<tr>
<td>1. Call to Order and Roll Call</td>
</tr>
<tr>
<td>2. Election of the Risk &amp; Audit Committee Chair and Vice Chair</td>
</tr>
<tr>
<td>3. Approval of the February 20, 2019 Risk &amp; Audit Committee Timed Agenda</td>
</tr>
<tr>
<td>4. Executive Report - Marlene Timberlake D’Adamo</td>
</tr>
<tr>
<td>5. Action Consent Items - Marlene Timberlake D’Adamo</td>
</tr>
<tr>
<td>a. Approval of the November 14, 2018 Risk &amp; Audit Committee Meeting Minutes</td>
</tr>
<tr>
<td>b. Review of the Risk and Audit Committee Delegation - Marlene Timberlake D’Adamo</td>
</tr>
<tr>
<td>6. Information Consent Items - Marlene Timberlake D’Adamo</td>
</tr>
<tr>
<td>a. 2019 Annual Calendar Review</td>
</tr>
<tr>
<td>b. Draft Agenda for the June 18, 2019 Risk &amp; Audit Committee Meeting</td>
</tr>
<tr>
<td>c. Quarterly Status Report - Office of Audit Services</td>
</tr>
<tr>
<td>d. Quarterly Status Report - Enterprise Risk Management</td>
</tr>
<tr>
<td>e. Quarterly Status Report - Enterprise Compliance Activity</td>
</tr>
<tr>
<td>7. Action Agenda Items</td>
</tr>
<tr>
<td>a. Finalist Interviews for the Independent Financial Statement Auditor - Beliz Chappuie</td>
</tr>
<tr>
<td>8. Information Agenda Items</td>
</tr>
<tr>
<td>a. Enterprise Risk Management 2018-19 Mid-Year Plan Update - Forrest Grimes</td>
</tr>
<tr>
<td>b. Enterprise Compliance 2018-19 Mid-Year Plan Update - Marlene Timberlake D’Adamo</td>
</tr>
<tr>
<td>c. Summary of Committee Direction - Marlene Timberlake D’Adamo</td>
</tr>
<tr>
<td>d. Public Comment</td>
</tr>
<tr>
<td>Adjournment</td>
</tr>
<tr>
<td>Reporter's Certificate</td>
</tr>
</tbody>
</table>
PROCEDINGS

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

COMMITTEE MEMBER MILLER: Thank you.
It's my pleasure to nominate Dana Hollinger for Chair of the Committee.

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

Are there any further nominations?
Any further nominations?
Final time, any further nominations?

Hearing no response, Nominations are closed.
I'll entertain a motion to elect Dana Hollinger as Chair by acclamation.

Do I have a motion?

COMMITTEE MEMBER BROWN: Motion

VICE CHAIRPERSON SLATON: Moved by Brown.

ACTING COMMITTEE MEMBER PAQUIN: Second.

VICE CHAIRPERSON SLATON: Second by Ms. Paquin.

All in favor say aye?

(Ayes.)

CHAIRPERSON HOLLINGER: Opposed?

Motion carries. Congratulations.

CHAIRPERSON HOLLINGER: Thank you very much.

Thank you.

(Applause.)
CHAIRPERSON HOLLINGER: Okay. And now for the election of Vice Chair for the Risk and Audit Committee. Do I have a motion?

VICE CHAIRPERSON SLATON: Yes.

CHAIRPERSON HOLLINGER: Mr. Slaton.

VICE CHAIRPERSON SLATON: I nominate David --

CHAIRPERSON HOLLINGER: Go ahead.

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

CHAIRPERSON HOLLINGER: Okay. Thank you. Do I have any other motions? Again, do I have any other motions? Third time, any other motions? I move to -- can I have a motion for David Miller as Vice Chair of Risk and Audit?

COMMITTEE MEMBER BROWN: So moved.

VICE CHAIRPERSON SLATON: Second.

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

Congratulations.

VICE CHAIRPERSON SLATON: Gotta have a vote.

COMMITTEE MEMBER BROWN: Gotta have.

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

(Ayes.)
CHAIRPERSON HOLLINGER: Congratulations.

(Applause.)

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

Okay. Are we good, Pam?

MS. HOPPER: Almost.

CHAIRPERSON HOLLINGER: Welcome.

The next order of business is the approval of the February 20th, 2019 Risk and Audit Committee timed agenda. Do I have a motion for approval?

COMMITTEE MEMBER BROWN: Move approval.

VICE CHAIRPERSON MILLER: Second.

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

All those in favor?

(Ayes.)

CHAIRPERSON HOLLINGER: Okay. Motion is forward. I'm sorry.

Yes.

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

CHAIRPERSON HOLLINGER: Yes.

ACTING COMMITTEE MEMBER RUFFINO: Thank you.

CHAIRPERSON HOLLINGER: Please note for the record that Mr. Ruffino has abstained.
Okay. Next item, Agenda Item 4, is the Executive Report. Ms. Ms. Timberlake D'Adamo.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
Thank you. Good afternoon, Madam Chair and Committee members. Marlene Timberlake D'Adam, CalPERS team member.

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

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

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

The next Risk and Audit Committee meeting is scheduled for June 18th, 2019, and includes the annual plans for Enterprise Risk Management, Enterprise
Compliance, and the Office of Audit Services, the independent auditor's annual plan, third-party valuation and certification of the contracting public agency plans, and the semiannual enterprise risk framework review.

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

CHAIRPERSON HOLLINGER: Seeing no questions. Let's move on to Item 5, the action consent items.

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

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

VICE CHAIRPERSON MILLER: So moved.

CHAIRPERSON HOLLINGER: Okay. Moved by Miller.

COMMITTEE MEMBER BROWN: Second.

CHAIRPERSON HOLLINGER: Second by Brown.

All those in favor?

(Ayes.)

CHAIRPERSON HOLLINGER: Okay. Moved --

ACTING COMMITTEE MEMBER RUFFINO: Abstain.

CHAIRPERSON HOLLINGER: Oh, abstain by Mr. Ruffino.
Okay. Motion moves forward.


CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: Yes. This is the annual item to review and approve the Committee's delegation. The delegation is before you and it has not changed since last year.

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

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

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

VICE CHAIRPERSON MILLER: So moved.

CHAIRPERSON HOLLINGER: Okay. Moved by Miller.

ACTING COMMITTEE MEMBER PAQUIN: Second.

CHAIRPERSON HOLLINGER: Second by Ms. Paquin.

All those in favor?

(Ayes.)

CHAIRPERSON HOLLINGER: Okay.

Motion -- Mr. Ruffino, are --

ACTING COMMITTEE MEMBER RUFFINO: Aye.

CHAIRPERSON HOLLINGER: Oh, aye. Okay. All
the -- okay. So motion moves forward.

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

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

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

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

Madam Chair, I'll have you --

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

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

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

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

At this time, I would like to ask Mr. Chappuie, Chief Auditor, to provide a summary of the RFP activities
to date, and the logistics of the interview process.

CHIEF AUDITOR CHAPPUIE: Thank you, Madam Chair.

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

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

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

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

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

BDO received 236 points for their fee proposal
score and 30 points for committing to participate in the DVBE preference program for a total -- for a preliminary total score of 266 points.

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

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

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

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

The Committee will then be asked to make a motion recommending the Board award the contract to the finalist with the highest total score subject to final negotiations.
and satisfaction of all requirements.

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

Thank you, Madam Chair.

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

Roll call.

COMMITTEE SECRETARY LEWIS: Dana Hollinger.
CHAIRPERSON HOLLINGER: Here.
COMMITTEE SECRETARY LEWIS: Margaret Brown?
COMMITTEE MEMBER BROWN: Here.
COMMITTEE SECRETARY LEWIS: Frank Ruffino?
ACTING COMMITTEE MEMBER RUFFINO: Here.
COMMITTEE SECRETARY LEWIS:  David Miller?

VICE CHAIRPERSON MILLER:  Here.

COMMITTEE SECRETARY LEWIS:  Jason Perez?

CHAIRPERSON HOLLINGER:  Excused.

COMMITTEE SECRETARY LEWIS:  Bill Slaton?

COMMITTEE MEMBER SLATON:  Here.

COMMITTEE SECRETARY LEWIS:  Lynn Paquin for Betty Yee?

ACTING COMMITTEE MEMBER PAQUIN:  Here.

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

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

COMMITTEE MEMBER BROWN: Yes, Madam Chair.

CHAIRPERSON HOLLINGER: Ms. --

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

CHAIRPERSON HOLLINGER: Oh, sure, of course.

COMMITTEE MEMBER BROWN: Thank you.

CHAIRPERSON HOLLINGER: Okay. One sec.

Just one sec.

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

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

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

Okay. And all of you, just so you know, before you, there is a little button to press that should connect
your mic so you can tell when they're on, because there will be a red right.

Go ahead.

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

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

My name is --

CHAIRPERSON HOLLINGER: Yes, your name.

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

Excuse me.

CHAIRPERSON HOLLINGER: Thank you.

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

With me today are a few of my colleagues, some of which specialize in various industries -- or various
practices areas - excuse me - that we -- where we keep
play -- performing key roles within the engagement itself.

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

Keith

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

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

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

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

In addition to the client service work, I also work with a number of members out of our national
government practice, and many of whom serve on committees in the AICPA and the GFOA in order to develop internal trainings to ensure that our professionals are quality trained in the government auditing arena, and also develop trainings for our clients as well.

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

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

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

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

MR. AHLERS: Good afternoon, everyone. My name
is Russ Ahlers. I'm the Chief Information Officer for BDO. I've been in technology for 25 years -- or almost 25 years. In my role as the firm's CIO, I'm responsible for delivering technology services to not only the firm, but also to client engagement teams such as this one.

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

Thank you.

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

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

MR. PATWARI: Hello, everyone. I'm Vishnu Patwari. I'm the audit partner in the Bay Area asset management practice. And we do -- we serve 120 plus private managers, fund managers with multiple strategies.
I have 15 years of experience serving complex fund clients, ranging from start-ups to multi-billion asset managers. During this tenure, I have a wide range of experience in different investment strategies and structures, including private equity and venture capital, global equities and fixed Income products, derivatives, and fund of funds.

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

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

Thank you.

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

MR. McCLEARY: Good afternoon. My name is Richard McCleary and I'm the managing director of actuarial services at BDO. My team is responsible for conducting the expert reviews for the pension and OPEB
plans that BDO audits. Because of the number of plans and the complexity and the size of the plans, BDO has made a commitment to have its own in-house actuarial staff, and is committed to growing that. Some of the clients that we serve -- some of the multi-billion dollar clients we serve are the State of Delaware, State of Alaska, and some others include the City of Houston and the City of Dallas Police and Fire.

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

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

Thank you.

CHAIRPERSON HOLLINGER: Do you want to take your additional two minutes or are you...
MR. KARO: We would actually want to hear from you and the questions you had, so we wanted to make sure we had plenty of time for that.

CHAIRPERSON HOLLINGER: Okay.

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

CHAIRPERSON HOLLINGER: Microphone, Margaret.

MR. AHLERS: My name is Russ Ahlers.

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

MR. AHLERS: No, I --

COMMITTEE MEMBER BROWN: Is he?

MR. AHLERS: I should be.

COMMITTEE MEMBER BROWN: Okay.

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

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

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

CHAIRPERSON HOLLINGER: Well, I guess I'll start initially. One of the things that concerns me today in looking at the financial profile of companies we invest in are these off-balance sheet items that can impact a
company's financial reality. So to one extent or what measures do you go to to make sure that those items are factored in?

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

CHAIRPERSON HOLLINGER: Okay. Thank you.
And hold on one sec. Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Madam Chair.
I believe that your proposal stated that the principal engagement partner is currently obtaining a California CPA license. Is that true, and if so, what's the status of that?

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

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

CHAIRPERSON HOLLINGER: No, go ahead.
COMMITTEE MEMBER SLATON: So your proposal also states that you don't have an office in Sacramento. So can you comment on how you plan to ensure the firm's presence and availability at our headquarters here.

MR. KARO: Yeah. That's -- that's one of my responsibilities as being the regional leader for the audit practice. We primarily -- the staffing would come out of our Bay Area offices, San Francisco and San Jose. I work with the two office managing partners there, and we -- I make sure the dedicated resources are there. One of the other advantages we have on resources, which we look at not just location, but expertise, and that's why the team that we've assembled are not all from California. We want to bring the right people to the table. And having over a thousand employees here in the west region, we can pick from the right people to be -- participate on the engagement as well.

COMMITTEE MEMBER SLATON: Okay. Thank you.

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

COMMITTEE MEMBER YEE: Thank you.

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

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

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

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

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

CHAIRPERSON HOLLINGER: Of course.
ACTING COMMITTEE MEMBER PAQUIN: So you mentioned that you work with the State of Delaware's pension fund.

MR. HAMMOND: Correct, right.

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

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

ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank you.

CHAIRPERSON HOLLINGER: Thank you.

Mr. Miller.

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

MR. McCLEARY: Yeah. So we've got -- right now, within our staff, we've got two actuaries, and third one that just passed the exams and will be applying shortly. So we'll have three by this spring. We're a small staff, as it stands right now, but growing. That staff is part
of the compensation and benefits practice within BDO. And we believe that by having, you know, our own staff that's self contained, you know, we've got tools, and we've got surveys. We've got the experience that it takes to review the assumptions for the audit teams. I'm the most senior actuary, and I've got 31 years of experience. Our next senior has about 25 years of experience.

VICE CHAIRPERSON MILLER: Thank you.


COMMITTEE MEMBER BROWN: Thank you.

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

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

But when we look at our core values, and they're actually -- we believe in them. They're on the back of
each of our business cards and we carry around with them every day. And we looked at the core values you have on your wall. We believe we align up with that. And, you know, I never want to be negative about other firms, because every firm is a great firm, otherwise they wouldn't be around.

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

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

COMMITTEE MEMBER BROWN: Actually what sets your firm apart.

MR. KARO: Sets your firm apart. Exactly.

COMMITTEE MEMBER BROWN: You could say it means better.

MR. KARO: Yeah. Well, I always -- well, look, we always think we're better, right? And you're going to hear that three other times time, I'm sure, as well. But it's really for allowing us to prove that to our clients.
And when you speak to our clients, I think you'd come back with the answers I'm giving you is that we look for solutions for problems. We don't try to make problems.

COMMITTEE MEMBER BROWN: Thank you.

CHAIRPERSON HOLLINGER: Thank you.

Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Madam Chair.

So CalPERS, along with all public pension funds, are impacted by new regulatory issues as they come up. So how do you ensure that your staff is up-to-date with the regulatory framework and the level of changes that can occur in our space?

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

And so every year in D.C., we hold an annual nonprofit and government conference. It's June. And we assure that we have targeted topics to address the needs of our critical clients. I've presented there before on
implementation of GASB 74.

   Excuse me.

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

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

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

   COMMITTEE MEMBER SLATON:  Okay. Thank you.
   CHAIRPERSON HOLLINGER:  Thank you.
   Could you also please describe your firm's,
because it's obviously something that's concern to us, your data protection capabilities? We are the largest asset owner and the largest capital market, as well as have health information on almost two million current and active retirees.

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

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

In regard to, you know, as we move forward with this, it's probably -- it is one of our top areas within, not only IT, but also within the firm. You know, we took cybersecurity very seriously, and data protection. As, you know, you take -- you can't basically turn on the
evening news and not look at some sort of breach
information out there.

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

CHAIRPERSON HOLLINGER: Thank you. Thank you
very much.

Mr. Ruffino.

ACTING COMMITTEE MEMBER RUFFINO: Thank you,
Madam Chair.

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

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

ACTING COMMITTEE MEMBER RUFFINO: So you work --
CHAIRPERSON HOLLINGER: Here. Hold on.
Go ahead.

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

MR. HAMMOND: I believe that service has ended.

ACTING COMMITTEE MEMBER RUFFINO: Thank you.

CHAIRPERSON HOLLINGER: Mr. Miller.

VICE CHAIRPERSON MILLER: I think --

CHAIRPERSON HOLLINGER: I'm sorry.

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

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

CHAIRPERSON HOLLINGER: Thank you.

VICE CHAIRPERSON MILLER: Thank you.

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

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

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

CHAIRPERSON HOLLINGER: That's okay.

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

MR. DOYLE: I'm sorry, I believe it's through the open bid process.

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

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

MR. KARO: On the other opportunities.

MR. DOYLE: Yes.

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

CHAIRPERSON HOLLINGER: Mr. Slaton.

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

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

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

And at that point, once we identify any, what we call, material weaknesses or significant deficiencies,
those -- those would be brought to those charge with governance, yourself and management would have to provide a response to those control issues.

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

COMMITTEE MEMBER SLATON: Okay. Thank you.

CHAIRPERSON HOLLINGER: Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you, Madam Chair.

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

(Laughter.)

MR. KARO: No. You know, it's funny. I mean, you know, it's out being a partner together in this. It's not us versus them or we're spying, right? Where the auditors are in here you can't talk to. We want to become
partners with our clients. We need to know what you know for us to do our job appropriate. Like Keith just said, interviews with those charged with governance. What are your concerns? How do we work through those concerns and work with management at the same time? So it's balancing act to that.

But you can get through any problem being -- having an adversarial relationship with management or those charged with governance. They have to come together.

There's just currently probably one of our largest wins we just had was for -- and it's not a -- it's not a pension plan, but it's a large public company. Their current auditor was basically resigning and leaving them. And they had to reissue -- we're in the current process right now of reissuing two years of audits for them and four quarters. And we started that relationship with them in September.

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

At the 8th hour, they came in and brought
another -- a board member brought in another firm to compete against us. The audit committee still went with BDO because they said for three months we've been working on solutions with them, not putting up road blocks in the process.

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

COMMITTEE MEMBER BROWN: Thank you.

CHAIRPERSON HOLLINGER: Thank you.

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

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

MR. DOYLE: Thank you.

CHAIRPERSON HOLLINGER: Thank you.

(Thereupon BDO left the auditorium)

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

(Thereupon CliftonLarsonAllen entered the auditorium.)

CHAIRPERSON HOLLINGER: Hello and welcome. I
wanted to let you know that you'll have 10 minutes for
your presentation. We really are appreciative of your
time here this afternoon. And staff will start the clock.
As you see, the time will start running as soon as the
first one of you begins to speak. And then at the end of
10 minutes, there's going to be a 20-minute question and
answer, in which we'll be asking you questions.
And we look forward to hearing your presentation,
and feel free to start.

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

CHAIRPERSON HOLLINGER: Oh, I'm sorry.

MR. REY: Am I on?

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

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

CHAIRPERSON HOLLINGER: Thank you.

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

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

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

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

A little bit a background on CliftonLarsonAllen. So we are the ninth largest firm in the country. We do no publicly-traded companies, and that is intentional. So again, to be the ninth largest firm in terms of revenues, and not do a lot of large Sarbanes-Oxley publicly-traded companies is -- is a significant -- is significant to get
to that point. Our focus is in the public sector.

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

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

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

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

The next point I wanted to make is that we -- it's just a different kind of audit. And I'm going to get to -- I'm going to kind of circle back to that a little bit at the end. But what do I mean by that, a different
kind off audit or a different kind of approach? Again, because we only do this all the time, we have a really tailored approach. Every audit firm does risk-based auditing and has audit programs they follow. We have customized audit programs specific to governmental retirement defined benefit and defined contribution plans.

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

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

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

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

Again, we have actuaries that we work with, and those actuaries specialize in the government space. So they only -- they specifically work with GASB clients. And that has been another thing. So again, some firms have their actuaries, but they might be a jack of all trades. The actuaries that we work with are GASB specific, and we work with only them. And that has borne a lot of fruit in the years subsequent to GASB 67 and 68, and 74 and 75, in the sense that now there's two
valuations, there's your funding valuation, and you have
your accounting evaluation, which is different, and
separate, and has its own differences.

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

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

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

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

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

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

In regards to your current strategic plan, we really believe that we can assist. I'm not going to be able -- we're not going to be able to help you achieve market returns. And we're certainly not going to be able to help you lower health care costs. But I do believe that, you know, some of the things that I talked about in terms of the data analytics and our approach kind of go -- are in lockstep with simplifying your programs, and improving service, and reducing costs - and I talked about our
fee - and streamlining those operations to gain efficiencies and improve productivity.

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

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

(Laughter.)

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

(Laughter.)

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

(Laughter.)

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

CHAIRPERSON HOLLINGER: Twenty-three seconds.

MR. REY: You can just say -- or we can just go right into the Q&A. You know, I've got 15 seconds.
CHAIRPERSON HOLLINGER: Okay. Well, I guess we'll start -- well, happy birthday, first of all, to your daughter. Before I open it up to questions -- and you're correct, I just wanted a clarification, because your fee was about the range of 40 percent less. And so I just wanted to make sure that -- or that you understood or could -- the full scope of the engagement?

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

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

Again, I know that it doesn't cost -- that it costs that. So any -- again, I stop short of saying anything about the other fees. I just know what it takes.
CHAIRPERSON HOLLINGER: Yeah. So it was just understanding, you know, how you arrived at those hours.

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

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

COMMITTEE MEMBER BROWN: The timer didn't start.

COMMITTEE MEMBER SLATON: I would suggest 18 minutes.

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

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

MR. REY: That's fine.

CHAIRPERSON HOLLINGER: Okay. Okay.

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

CHAIRPERSON HOLLINGER: Okay.

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

CHAIRPERSON HOLLINGER: Thank you.

Ms. Brown.
COMMITTEE MEMBER BROWN: Thank you. I like zero-based budgeting.

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

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

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

MR. OSTROSKI: And just to follow -- my name is Jason Ostroski. We didn't get full introductions. I'm also a principal WITH CliftonLarsonAllen. I work in the govern -- government pension group with Tom. I spend 100 percent of my year doing this as well. And I think that is -- that and the data analytics are the two differentiators, I think. And that's kind of how we sell
we spend 100 percent of our year working with
government pensions. We go to the conferences, NASRA,
P2F2. We get the CP. Our whole team is essentially
focused in the government pension space.

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

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

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

MR. MERRYMAN: Yeah. To fill in a bit there, the
date analytic methodology was really borne as an investigative approach. There's planning, information gathering, the data analytics, and then the follow up. And all of that is very strategic to look for risk.

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

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

COMMITTEE MEMBER BROWN: Thank you
CHAIRPERSON HOLLINGER: Thank you.
Ms. Paquin for Betty Yee.
ACTING COMMITTEE MEMBER PAQUIN: Thank you.
So your proposal response to question 14D regarding the actuarial work with the Long-Term Care Program within the last five year states N/A. Could you elaborate on this response and how do you plan to meet this experience?

MR. REY: So I apol -- I do apologize for that. I think the -- that was a misinterpretation of that. We do have -- we work with long-term care actuaries as part
of -- we have a large -- the firm has a large health care practice. So we would have specialized actuaries that only work with long-term care facilities and/or clients.

ACTING COMMITTEE MEMBER PAQUIN: Okay. So --

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

ACTING COMMITTEE MEMBER PAQUIN: Okay. Thanks.

CHAIRPERSON HOLLINGER: Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Madam Chair. Two quick questions. One is I think your proposal states that the principal engagement partner is currently obtaining a California CPA license, is that true, and if so, can you provide a status on that?

MR. REY: It's in pro -- I don't know what you know about getting it. I used to have my license in California many years ago. And then I -- when the firm -- when reciprocity came out and you really only needed one license, the firm, probably for save a couple bucks, kind of gave up all -- except my primary residence. It's in
COMMITTEE MEMBER SLATON: Okay. CalPERS is constantly impacted, as all pension systems are, by new laws and regulations. So how will you firm -- how will you ensure that your firm is up-to-date on the regulatory framework as it changes?

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

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

But I mentioned passion before. This is all I do, so I'm kind of geeky about public pensions. And I certainly would be very diligent personally, and as with the whole team, in trying to -- in keeping abreast. And
as I said, we also have our California folks that would make sure they -- they're reminding me if, by chance, we miss something.

COMMITTEE MEMBER SLATON: Okay. Thank you.

CHAIRPERSON HOLLINGER: Mr. Miller.

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

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

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

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

And with that, I'll kind of turn it over to our
outsourced actuary.

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

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

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

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

And in one case, we found, you know, a -- over,
you know, billions -- billion dollar error in one of the
calculations of the net pension obligation that -- net
pension liability, that the funding -- or the fund's
actuary had missed.

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

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

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

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

CHAIRPERSON HOLLINGER: Well, thank you.

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

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

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

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

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

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

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

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

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Madam Chair.

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

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

ACTING COMMITTEE MEMBER RUFFINO: Okay. Thank you.

CHAIRPERSON HOLLINGER: Mr. Slaton.

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

MR. REY: Sure. We actually won't -- you want to take this one or Randy? I just want someone to get your -- we brought everyone out. I want everyone to kind of at least have an opportunity and I will chime in.
MR. OSTROSKI: Philosophy for testing internal controls. So in any audit you do a risk assessment. And we would do a robust risk assessment obviously of CalPERS. I think the industry expertise certainly allows us to -- from a best practice perspective especially, when we're going through the process of walking through your controls, identifying key controls, identifying the significant risk areas of just sharing things that we've even seen in other retirement systems around the country.

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

Other areas, investments, we're walking through controls. We may not be testing controls. We may be taking more of a substantive approach. But still, there's
a full walk-through of those controls of understanding what the controls are in place over any of the significant audit areas.

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

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

And I do think that kind of leads -- and I appreciate the que -- that question, because it leads to what I hope to make a -- differentiates ourselves. I
really believe that CalPERS is a perfect case study for to
do continuous auditing. And I do believe that it would
also benefit CalPERS staff internal audit as well, if we
were successful in doing that.

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

CHAIRPERSON HOLLINGER: Your -- okay. Thank you.

Your time is up.

MR. REY: Thank you.

CHAIRPERSON HOLLINGER: Thank you.

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

MR. REY: Thanks for having us.

(Thereupon CliftonLarsonAllen left the
auditorium.)

(Thereupon Deloitte and Touche entered
the auditorium.)

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

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

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

(Thereupon a recess was taken.)
(On record: 3:33 p.m.)

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

Should we, I think, close the --

COMMITTEE MEMBER BROWN: Yes, we should.

CHAIRPERSON HOLLINGER: Thank you. Sorry. One sec.

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

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

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

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

So can we get the clock? Oh, wait don't start it yet. Okay. So when -- feel free to speak and we look forward to hearing from you.
MR. MELCHER: Good afternoon and thank you very much for hosting us today. My name is James Melcher and I will be the leader of the audit services being provided to CalPERS.

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

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

So in the interests of respecting your time, I will first quickly induce our team, but I hope you'll get
a chance to speak with them directly during the Q&A process.

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

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

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

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

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

And to my far right, last but not least, is Michael de Leon. He is our -- he'll be our lead actuarial specialist. And he heads up Deloitte Consulting's public sector retirement actuarial practice for the nation. He has over 20 years of experience in providing retirement
actuarial services, including recent stints at the
University of California systems, and working with Peter
on the Utah Retirement Systems.

So that is the team.

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

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

So a couple specific reasons as why we think
we're a great fit. First, quality. Simply put, we are
number one. That is not some sort of glib statement put
together by our marketing folks. As you can see from the
bottom left chart up here, that is a statement of fact
that comes from our public regulator, the PCAOB, through their inspection results.

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

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

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

But beyond that, there are some positive externalities to CalPERS. First, Deloitte Connect, which is our tool for communicating with CalPERS management provides a secure portal by which PII and other sensitive
data can travel between CalPERS and us. And it's also well lauded as being very user friendly and a great interface that should actually reduce the amount of daily work that the CalPERS folks have to do in meeting our audit requirements and our audit requests.

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

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

So to conclude, I submit that now is the time to embrace the change that is coming to CalPERS, this time in
the form of selecting Deloitte as your independent auditor. You will not be alone.

If we can go to the first slide.

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

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

So ultimately, why should you change?

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

CHAIRPERSON HOLLINGER: Thank you.

I guess we can stop the clock and go to -- put
the clock on for questions.

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

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

CHAIRPERSON HOLLINGER: Thank you.

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

CHAIRPERSON HOLLINGER: Correct.

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

CHAIRPERSON HOLLINGER: Right.

MR. MUNDY: Well, it's very simple, it will continue as long as you use what we consider guideline public companies. If you look at the information, when
you go to value a public company -- a private company, you use information of companies that are like you. Your -- they're public, so that information is out there. 12/31 comes around, as of January 15th, you're running information pulling what their multiples are.

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

CHAIRPERSON HOLLINGER: Right.

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

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

12/31 doesn't generally get published until February 15th or later, when publics started issuing, through their Ks, what their multiples are. So if your
valuation is done any time before that 45-day window after period, it will have stale or N data. And all of those things won't come out.

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

CHAIRPERSON HOLLINGER: Right.

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

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

Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you.

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

(Laughter.)

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

COMMITTEE MEMBER BROWN: To your left.
CHAIRPERSON HOLLINGER: Go ahead.

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

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

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

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

So I had a client where the data analytic tool noticed that there were 700 changes and dates of birth, which you'd kind of go that's a problem. And when we went through it with our client, it turned out that our client...
had changed how they reported the fields, but had
neglected to communicate it with their external auditors.
And it ultimately became a material error that had to be
correct.

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

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

(Laughter.)

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

(Laughter.)

MR. MUNDY: So one of the things that I want to
stress is part of D.Nav and part of our structure is we
are going to take a look at the 17,500 securities, all of
them. We're not going to sample based on that's not as
important as this is important. It's kind of the 80/20
rule, 80 percent of the portfolio will take us 20 percent
of the time. It's the real estate, it's the derivative
use. It's the private equity. It's the venture capital. I'll know and be able to report to you, because we will report within -- after 45 days, after 60 days, I'll say, hey, listen there's a risk of the portfolio of shifting, based on data that was provided initially, like we would tell you now, because there is a risk. And we do that, because we do the audit. You prepare it. We go into it and when we pull the public comps they've changed. So we know where the direction they're going after management has prepared it. No flaw. Just timing and a process. And that's what we would do.

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

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

(Laughter.)

CHAIRPERSON HOLLINGER: Thank you.

Ms. Paquin for Betty Yee.

ACTING COMMITTEE MEMBER PAQUIN: Yes. Hi.

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

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

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

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

MR. MANN: Well, thanks, James.

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

You know, we understand the responsibility that you have in providing accurate information out to the various employers and their auditors throughout the state
that rely on this information in recording these amounts
correctly in their financial statements. There's a lot of
people relying on this information, and a lot of
responsibility in making sure it gets done right.

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

And it's, you know, very much looking at what --
these schedules, they very much have followed a
substantive approach too. There's a couple of different
approaches you can take in looking at these GASB 68
schedules and providing this information out to the
employers. What's been taken and what's been followed is
a very substantive base approach, where, in particular,
with the agent plan, the opinion on those schedules are by
individual rate plan. And with over 400 rate plans in
that schedule, that's -- that's opining on each of those
individual Columns. So it's testing the contributions,
the benefit payments associated with each of those. And
that takes a lot of effort with the cost sharing
schedules.
With all the various census data and employers participating, there's a requirement and obligation for us to comfortable with that census data in the aggregate, and in how it's being allocated out to the pension liabilities, how it's allocated out to the individual employers. And it takes time to do all that.

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

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

So there's -- there is alternatives that can be pursued and looked at that might down the road affect how we might scope, and might affect hours, and ultimately fees. And knowing those options are there is helpful.
But very much our fees are based on us understanding what's required to take place in order to get information audited in a quality fashion, so that we can make sure we're adhering to the standards that we hold ourselves to and the profession holds us to, and that it's information that can be relied on.

CHAIRPERSON HOLLINGER: Thank you very much.

Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Madam Chair.

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

MR. MELCHER: So absolutely. Great question.

So you are correct, in the current environment, we -- there is no requirement to test, what we call, the operating effectiveness of internal controls to therein reduce your substantive testing. It's on option, but there's no requirement. And so one thing that we are required to do, and always required to do, is to understand the key significant controls, both at an entity level, and then also on the key areas of the audit that are key to those processes, and evaluate those for the
design. Are they designed correctly? Do you have segregation of duties? If there's systems involved, are those systems protected? And then also for their implem -- implementation at a point during the year.

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

COMMITTEE MEMBER SLATON: Okay. Thank you.
CHAIRPERSON HOLLINGER: Thank you.
Mr. Miller.

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

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

MR. de LEON: Absolutely. Great. Thank you.
Yeah, again, Michael de Leon. Pleasure to meet you all. And again, I lead our public sector pension and OPEB actuarial practice for Deloitte.

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

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

So we sort of -- you know, we can empathize with your concerns and the way -- the challenges you're addressing.
From the audit perspective, you know, we bring -- it's ingrained in us, as part of Deloitte, because pretty much -- the majority of our actuaries also provide audit services. And, you know, so we've sort of built that in from the ground up. We -- we've created annual training sessions, for example, that all of our actuaries who participate in audits have to -- have to complete.

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

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

CHAIRPERSON HOLLINGER: Thank you.

Mr. Ruffino.

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

MR. MELCHER: So I can answer the first question. As part of going through the RFP process, we did what is
called a conflict check, which means we send out, in sort of blast email, to anybody that is looking to or might be providing services to CalPERS or its affiliates. And so there is an ongoing discussion with our consulting team about providing some, what we would call, minor valuation support services for a very limited immaterial amount of the portfolio.

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

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

In addition to that, on an individual level, relationships are looked at. So depending on who might be at the firm and what role, certain relationships are
permitted with CalPERS folks. Certain ones are not.

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

ACTING COMMITTEE MEMBER RUFFINO: Thank you.
CHAIRPERSON HOLLINGER: Thank you.

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

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

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

Secondary, Deloitte Connect, which I mentioned
earlier, which is the hub of the transmission of data
between CalPERS and our audit team meets the federal
standards for PII and PHI. So that -- that's where all
the data would be kept. And our people receive training
on privacy matters and things of that nature on an annual
basis.

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

CHAIRPERSON HOLLINGER: THANK you.

Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you.

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

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

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

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

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

COMMITTEE MEMBER SLATON: Thank you.

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

(Thereupon Deloitte and Touche left the auditorium)
(Thereupon KPMG entered the auditorium.)

CHAIRPERSON HOLLINGER: Thank you very much.

Please -- we're just waiting for one or two Board members to come back.

Just give us a few minutes. Thank you.

No, we're waiting for Bill.

One sec.

Welcome. Thank you for coming this afternoon.

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

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

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

On behalf of our team, I wanted to thank you for
the opportunity to present our qualifications to you today. As you can see, we've assembled a representative list of our key engagement team members, as well as some members from our local California business unit office leadership.

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

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

In just our first year as your auditors, we've been able to demonstrate how a large firm can be nimble. From the time we were hired in June, when we signed the contract, to the time we delivered the CAFR in November was a span of about five months. An audit of this size
and complexity traditionally should take somewhere between seven and eight months. And if we're fortunate to retain CalPERS as a client, our audit plan would start with field work in April of this year.

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

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

I'm not sure we were successful in shorting the number of phone calls that were arrived, but we certainly got that audit report done in time. I also want to talk a little bit about the benefits of working with a large firm.
Our local California offices supplied the 75 plus professionals who worked on this engagement this year. We also have a dedicated national resource for our technical accounting group, and our actuarial services. And while oftentimes those technical resources act primarily as an -- in an audit support role, there was a lot of client-facing responsibility with our specialists this career. Numerous phone calls. We even had several on-site visits. The head of our national -- the individual that heads our national technical group to help us navigate some of the complex accounting pronouncements, and just digest some of the complexities -- complexities of CalPERS.

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

So we're prepared today to lower our fees by 10 percent, and we're going to do that in a couple ways. One, we're going to increase our participation from our disabled veteran partner from just over three percent to the -- a minimum of five percent. We're also going to
pull forward any of the planned audit efficiencies that we
hope to capture over the life of this contract. And while
it's uncertain whether we're ever going to be able to
realize those planned efficiencies, we're willing to take
that risk and make that as a commitment to CalPERS in a
demonstration of how we desire to forge a long-term
relationship with you.

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

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

MR. KELLY: Thank you, Brock and good afternoon.

I'm the head of audit for KPMG in Northern California. So I have overall responsibility for all our audit resources and the local resources that deliver your audit. I'm here to emphasize that KPMG is dedicated to the public sector space. While other firms have reduced their focus, we have sustained that commitment to the public sector space.

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

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

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

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

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

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

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

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

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

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

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

In closing, I just want to highlight that, yes, we have the experience. However, you need the right type
of experience. Our experience with GASB plans far exceed those of FASB plans. Our experience with agent multi-employer plans exceeds those of cost-sharing plans. And our experience with CalPERS, we haven't seen anything like CalPERS. You truly are unique. So like I said, you need a firm who not only has the right experience, but you need the relevant experience. And we are that firm.

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

CHAIRPERSON HOLLINGER: Thank you very much.

Okay. We'll set the clock for questions.

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

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

CHAIRPERSON HOLLINGER: Correct.

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

In the top six, there were others that were
higher than us, but we were not satisfied with those results. And we've made significant investments to address those areas, which are common across the profession, as it relates to internal controls to select for testing, and accounting, and auditing for estimates. Those reports are on a lag. We know that the inspections -- that we are making improvements, that the inspections that we're just done in the 2018 cycle for the 2017 audits will show improvement. And so we're very confident that the significant steps that we're making to address those areas and increase our quality will provide those results, and will have no ability on our ability -- no effect on our ability to effectively serve you.

CHAIRPERSON HOLLINGER: Thank you very much.

Ms. Paquin for Ms. Yee.

ACTING COMMITTEE MEMBER PAQUIN: Thank you. Thank you. And thank you for touching on your fees and appreciate the offer to make the fee adjustment. I was just curious if you could explain your original fees and rationale for how you put together the staffing plan over the five-year contract.

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

So our original plan was based on our experience here. When we initially proposed back in last March, we were kind of proposing a little blindly. When we put
together our audit plan for the first RFP, and continue that audit plan for this RFP, it was really based on our understanding of CalPERS, and the level of complexity, and some of the complicating factors that go in here.

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

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

Willis Towers Watson put together a list of the 300 largest pension plans. We filtered that by U.S. government pension plans. Of the top 30 U.S. pension plans, KPMG audits six of them. I work on five of them. I'm the lead audit partner for CalPERS. I'm the lead audit partner -- a previous lead audit partner for another firm in that six. I'm the current re -- current
concurring review partner for two of those firms. And I'm
the GASB 68 specialist on the remaining -- on the
remaining firm.

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

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

MS. WIESE: Great. Thanks, Brock. Thank you,
Committee, for having me here today. I'm thrilled to be
here. My name is Brianne, as Brock said. I'm an audit
managing director here in California. I have 16 years of
experience, all of which have been primarily serving the
government space such as yourself. So I -- I know what it's like. I know the challenges you face.

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

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

And this isn't an army that can be in some windowless room in the back corner or some automated bot that you could program to do this. These are -- this needs a person. You need to get on the phone. You need to contact public agencies. You need to contact schools. You need to understand how they develop or how they gather the information, how they record it, how they transmitted it to you, where the risk points are. And you need to be able to see the big picture. You need to understand how CalPERS works. You need to be able to identify trends and analytically address the data. The data is very informative if you understand it, and if you understand CalPERS. And we understand CalPERS.
And part of that is knowing where we think we can gain efficiencies. And I think this is certainly an area that should be more efficient and absolutely could be more efficient. I believe we've provided management with several ideas. And I won't bore you with all my ideas today. I don't think we have time.

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

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

CHAIRPERSON HOLLINGER: Mr. Slaton.

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

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

CHAIRPERSON HOLLINGER: Oh, I apologize.

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

CHAIRPERSON HOLLINGER: Go ahead. I apologize.
MR. ROMANO: Thank you.

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

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

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

But there is also some efficiency that can be gained here. Currently, the way that it's set up, we have to opine on each employer. The standards allow us to take a different approach. And we can have our IRM team get involved, our -- so our IT folks, and they can help us do a SOC 1 type 2 report. And we can issue one opinion over
PERF A. So instead of having approximately 435 opinions
for PERF A, you would have one, which would allow us to
gain efficiencies. It would be easier for the CalPERS
financial reporting group, and also gain efficiencies on
the audit side.

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

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

CHAIRPERSON HOLLINGER: Go ahead, Mr. Slaton.

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

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

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

This year, we were drinking through a fire hose quite literally from the time we were hired in the middle of June to get all the deliverables together. So we focused a little bit more on a substantive approach this year just, because of the nature -- of the hire and the timeline involved. But our approach is -- is that understanding controls is the value-add that we can add to
you. So we did test -- we did test a lot of those controls during the course of the audit. We didn't test as many of them as we would have liked to, just because of the circumstances that we were hiring and getting the audit done. But our -- we were -- we're not going to issue an opinion on internal controls, but they're going to be a key element of our audit going forward.

CHAIRPERSON HOLLINGER: Thank you.

Mr. Miller.

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

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

And we're -- within my role there has really been to communicate both complex and technical information to our clients, such as CalPERS, as well as to the audit teams. To answer your question directly, I think that the experience that we have within our firm, with our actuaries -- and we have five actuaries that serve CalPERS...
across a variety of areas. Some of those actuaries are on
the pension side, such as myself. You have actuaries
working with you on the self-funded health care, and
actuaries working with you on the long-term care.

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

VICE CHAIRPERSON MILLER: Thank you.

CHAIRPERSON HOLLINGER: Thank you.

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

MR. ROMANO: Yeah. So KPMG believes that one of
the most valuable items that come through our hands is
your -- is your data. And it comes through us -- it comes
through to us in a variety of ways. The most -- the most
sensitive area is in the area of the census work. And while that work is not the most complex work. It's the type of that we can't entrust to subcontractors or folks that -- that don't understand and appreciate the need to protect that data.

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

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

Ms. Brown.

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

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

(Laughter.)

MR. ROMANO: And I'm going to -- I'm just going to come out and say it. I think we care -- we care about -- we care deeply about the relationship. And I -- I gave an example in my opening remarks purposely as a -- as a -- as an example of what we think differentiates us from the other accounting firm. There was a -- there was anxious -- anxious moment in December when it was realized that one of your public agencies needed a report that wasn't scheduled to be done until the end of February. And there was a lot of angst over that. And while we assured everybody that we would get that report done in time for their reporting needs, we went the extra step and reached out -- we offered to reach out directly to that public agency and speak to that -- to that management. It was advised that we don't.
We then -- we then offered to reach out to our counterparts at the CPA firm, so we could -- we could help manage the expectations, so that they could help manage the expectations of your clients. Something that wasn't require, wasn't necessary. Something we thought was important to the relationship. And I think it's an example of -- of the degree of -- of client-centric service that KPMG kind of breathes into you. Having been here 30 years, I truly believe that this team, if I'm bold enough to say it, cares -- cares as deeply as your -- in your success as we do ours.

COMMITTEE MEMBER BROWN: Thank you.

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

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

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

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

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

COMMITTEE MEMBER BROWN: Thank you.

CHAIRPERSON HOLLINGER: Thank you.

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

COMMITTEE MEMBER SLATON: Okay. So, as you know, CalPERS, like all pension funds, are impacted by new regulations, and by new laws. And we know you're a big -- you know, you're a huge firm. But how do you assure
yourself that the people who are working on our engagement are up to speed?

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

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

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

(Thereupon KPMG left the auditorium.)
CHAIRPERSON HOLLINGER: Thank you.
One second. I just want to wait till the door is shut. Thank you so much.
Okay. We will now determine an interview score for each of the finalists. And the maximum score is 700. And I think what makes the most sense here is maybe for us to have initially a conversation on who we thought did the best job. Because what Bill and I figured out in the RFP process is you can be a low bid and it scales it.

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

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

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

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

GENERAL COUNSEL JACOBS: That's -- those are the
correct years, yes.

CHAIRPERSON HOLLINGER: Yeah.

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

CHAIRPERSON HOLLINGER: Yeah.

GENERAL COUNSEL JACOBS: -- with that finding.

CHAIRPERSON HOLLINGER: So my concern I just --

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

CHAIRPERSON HOLLINGER: Pardon, Marlene?

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

CHAIRPERSON HOLLINGER: Yeah, the trial.

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

CHAIRPERSON HOLLINGER: So my -- my concern is I don't think we need anymore headline risk. And the way I saw it, I was most impressed with Deloitte's knowledge on the investment side of the team. And I like -- does Deloitte have an office here in Sacramento? Yeah, they have an office. I know KPMG did. I felt the firm out of -- are they out of Seattle, the other firm? You know, with getting his California licensing, and I'm not sure they had the same depth and breadth and also cyber
I just wanted to make sure that everybody new that this is open session.

CHAIRPERSON HOLLINGER: Okay. Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you.

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

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: They're scored on the fees that are submitted. They also do not get to change their score for the DVBE participation. However, you do have a question in your interview process regarding fees. And so what they offered to you can be a consideration in your score for the interview, based upon that fee question.

ACTING COMMITTEE MEMBER PAQUIN: Okay. Thank you. I wanted say, also I was very impressed with Deloitte. I think the fact that they have a Sacramento office. They have a national footprint. They have invested quite a bit in their data analytics. They have secure technology to safeguard our data, and they have a lot of expertise, both on the actuary side and also with
the valuation of the assets. I thought it was very impressive. And I do share your concerns about the trial that just started recently.

CHAIRPERSON HOLLINGER: Okay. Thank you.

Mr. Miller.

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

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

CHAIRPERSON HOLLINGER: Ms. Brown.
COMMITTEE MEMBER BROWN: Thank you.

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

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

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

(Laughter.)

COMMITTEE MEMBER BROWN: No, it's important.
It's important that they love this stuff.

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

Thank you.

CHAIRPERSON HOLLINGER: Thank you.

Mr. Slaton.

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

CHAIRPERSON HOLLINGER: Yeah, right.

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

(Laughter.)

COMMITTEE MEMBER SLATON: -- you know, I'm not sure that -- that sways very much. It's cute, but -- so I want to ask the rest of the group, because I can tell
obviously from the commentary that Deloitte is in -- is in the top position. But the way the procurement process works is that you're going to enter into negotiations with whoever comes out on top.

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

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
Certainly. You would take the existing score that they have and you would add your interview score and the total score, not just the interview score.

COMMITTEE MEMBER SLATON: Right.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
The total score would be who would get first --

COMMITTEE MEMBER SLATON: Correct.
OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
-- second, third, and fourth.
COMMITTEE MEMBER SLATON: Correct.
OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:
And if the negotiations were unsuccessful with
the first place company, then we could move to the second
place company.
COMMITTEE MEMBER SLATON: So that's the question
I leave for the rest of the Committee members.
CHAIRPERSON HOLLINGER: So then do I entertain a
motion -- oh, I'm sorry, Mr. Miller.
COMMITTEE MEMBER BROWN: He want's to know we
think is second best.
COMMITTEE MEMBER SLATON: No, I want to -- I want
to see who the group thinks --
COMMITTEE MEMBER BROWN: Is second best.
COMMITTEE MEMBER SLATON: -- would be second
best.
CHAIRPERSON HOLLINGER: Oh.
VICE CHAIRPERSON MILLER: Yeah. I'll speak to
that.
CHAIRPERSON HOLLINGER: Go ahead.
VICE CHAIRPERSON MILLER: I really think I would
put KPMG third, frankly, for all the reasons stated. And
I think that CLA, if it wasn't for my concern that they
had kind of -- they're arguing that they know they can do this for 40 percent less. I didn't find that compelling. But on all -- in just scoring their questions, to me, they were number two, just in terms of their response to this interview to me.

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

But Ms. Paquin.

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

COMMITTEE MEMBER BROWN: The same.

CHAIRPERSON HOLLINGER: The same. Okay.

COMMITTEE MEMBER SLATON: Okay. So I have --

CHAIRPERSON HOLLINGER: So I get a motion?

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

CHAIRPERSON HOLLINGER: Okay. Mr. Slaton.

COMMITTEE MEMBER SLATON: Let me see if I can -- if my math is --
CHAIRPERSON HOLLINGER: For some reason your mic never goes off, so its --

(Laughter.)

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

CHAIRPERSON HOLLINGER: Yeah.

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

COMMITTEE MEMBER BROWN: No. Kim is saying no.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: No. You said 660 for KPMG, so you would be ranking KPMG as number two, Mr. Slaton.

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

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Oh, I'm sorry. You're talking total score. I was talking interview score.

COMMITTEE MEMBER SLATON: I'm talking total
score. I'm not talking about the -- I'm talking about total score, because this is based on total score. Am I correct?

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

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

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

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM:

Yes, your math is correct.

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

CHAIRPERSON HOLLINGER: So that gives us --

COMMITTEE MEMBER BROWN: Are you making a motion?

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

COMMITTEE MEMBER BROWN: Right.

COMMITTEE MEMBER SLATON: That CliftonLarson receive 520 points from the interview, that BDO receive 610 points from the interview, that Deloitte receive 680
points from the -- for the interview, and KPMG receive 660 points.

COMMITTEE MEMBER BROWN: Second.

CHAIRPERSON HOLLINGER: Okay. All those in favor?

(Ayes.)

CHAIRPERSON HOLLINGER: Motion carries.

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

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

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

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

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

CHAIRPERSON HOLLINGER: Okay.

OPERATIONS SUPPORT SERVICES DIVISION CHIEF MALM: Thank you.

(Off record: 4:53 p.m.)
(Thereupon a recess was taken.)
(On record:  4:58 p.m.)

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

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

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

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

CHAIRPERSON HOLLINGER:  Okay.  So I will now
entertain a motion for a recommendation to the Board.
Do I need --

CHIEF AUDITOR CHAPPUIE:  Yes.
CHAIRPERSON HOLLINGER: Okay. So. Mr. Slaton.

Oh, sorry.

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

VICE CHAIRPERSON MILLER: Second.

COMMITTEE MEMBER SLATON: And obviously, the instructions are to negotiate a contract. And if not, then you go to the next highest scored bidder, correct?

That's the motion.

VICE CHAIRPERSON MILLER: I'll second that.

CHAIRPERSON HOLLINGER: All those in favor?

(Ayes.)

CHAIRPERSON HOLLINGER: Motion passes.

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

And now we will move to --

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

CHAIRPERSON HOLLINGER: Where is my agenda?

Okay. Next item on the agenda, Item 8a, Enterprise Risk Management Plan Update. Mr. Forrest Grimes.
(Thereupon an overhead presentation was
Presented as follows.)

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

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

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

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

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

CHAIRPERSON HOLLINGER: Okay. Thank you.

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

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
Yes. Good afternoon. Thanks, everybody, for
hanging with us. We're almost there. For Item 8b what you have, this is not a duplicate, per se, of the Enterprise Risk Mid-Year Plan, but it is the format that they use. So if you recall when we came to you in June and gave you our plan, it was a narrative form. It was a lot more in terms of the narrative part. What we've done is we've adopted the format that the Risk folks use the dashboard. We think it looks very good. We think it's easy to understand. And we think that it really encapsulates the work that we've done, as well as where we're at with respect to this point in the calendar year.

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


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

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

COMMITTEE MEMBER BROWN: I do.


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

Thank you.

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
Well, I think I might be able to give you some information on this.

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

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
Yes. Well, I think that in terms of -- let me just get to my notes on slide 12. Okay. So here we say that the average number of days open for complaints has increased over the 12-month period. And that's because the complaints that have remained open for a longer period of time now have a larger impact on the average due to the
decrease in total open complaints.

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

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

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

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: You'll find the same graph, but I'm not sure what it will say.

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

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

COMMITTEE MEMBER BROWN: Oh, that's what I wanted to do or you could do that for us.
CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: I can do that too, yes.

COMMITTEE MEMBER BROWN: Thank you.

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

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: Yes. And I think -- I would agree, I think that in this instance what we would be looking at is the average number of complaints that we closed during that period, because that's really going to dictate whether the trend line goes like this or if it stays like this.

COMMITTEE MEMBER BROWN: Right.

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

COMMITTEE MEMBER BROWN: Thanks. Appreciate that.

CHAIRPERSON HOLLINGER: Thank you.

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

I have not been given any public comment.

There's no public comment -- any public comment. There's no one here.

(Laughter.)

CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: Up
until -- up until Ms. Brown's question, I had no Committee
direction, but I think I do now.

CHAIRPERSON HOLLINGER: Okay. Yes.

Meeting adjourned.

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

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

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

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

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

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

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