

MEETING  
STATE OF CALIFORNIA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION  
RISK AND AUDIT COMMITTEE  
OPEN SESSION

ROBERT F. CARLSON AUDITORIUM  
LINCOLN PLAZA NORTH  
400 P STREET  
SACRAMENTO, CALIFORNIA

TUESDAY, JUNE 18, 2019

11:26 A.M.

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

COMMITTEE MEMBERS:

Mr. David Miller, Vice Chairperson  
Ms. Margaret Brown  
Ms. Fiona Ma, represented by Mr. Frank Ruffino  
Ms. Lisa Middleton  
Mr. Jason Perez  
Ms. Betty Yee, represented by Ms. Lynn Paquin

BOARD MEMBERS:

Mr. Rob Feckner  
Mr. Henry Jones, President  
Mr. Eraina Ortega  
Mr. Ramon Rubalcava  
Ms. Theresa Taylor, Vice President

STAFF:

Ms. Marcie Frost, Chief Executive Officer  
Mr. Matthew Jacobs, General Counsel  
Mr. Scott Terando, Chief Actuary  
Ms. Marlene Timberlake D'Adamo, Chief Compliance Officer  
Ms. Beliz Chappuie, Chief Auditor  
Mr. Forrest Grimes, Chief Risk Officer  
Ms. Carrie Lewis, Committee Secretary

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

ALSO PRESENT:

Mr. David Driscoll, Buck Global

Mr. Keith Hammond, BDO

Mr. Kevin Karo, BDO

Mr. Billy Kim, BDO

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

1  
2 VICE CHAIRPERSON MILLER: I'll call to order the  
3 open session of the Risk and Audit Committee. And the  
4 first order of business is roll call.

5 COMMITTEE SECRETARY LEWIS: Dana Hollinger?

6 VICE CHAIRPERSON MILLER: Excused.

7 COMMITTEE SECRETARY LEWIS: David Miller?

8 VICE CHAIRPERSON MILLER: Here.

9 COMMITTEE SECRETARY LEWIS: Margaret Brown?

10 COMMITTEE MEMBER BROWN: Here.

11 COMMITTEE SECRETARY LEWIS: Frank Ruffino for  
12 Fiona Ma?

13 ACTING COMMITTEE MEMBER RUFFINO: Present.

14 COMMITTEE SECRETARY LEWIS: Lisa Middleton?

15 COMMITTEE MEMBER MIDDLETON: Present.

16 COMMITTEE SECRETARY LEWIS: Jason Perez?

17 COMMITTEE MEMBER PEREZ: Here.

18 COMMITTEE SECRETARY LEWIS: Lynn Paquin for Betty  
19 Yee?

20 ACTING COMMITTEE MEMBER PAQUIN: Here.

21 VICE CHAIRPERSON MILLER: Okay. First order of  
22 business today is number 2, Election of Risk and Audit  
23 Committee Chair and Vice Chair. I'll turn this over to  
24 Henry Jones.

25 PRESIDENT JONES: Okay. Thank you, Mr. Miller.

1 Yes. You might notice that Ms. Dana Hollinger is not  
2 present today. Ms. Hollinger has offered her resignation  
3 and will be stepping down from the Board effective June  
4 30th. And that's why she's unable to be here today and  
5 unable to be at the Board meeting tomorrow. But we will  
6 take some tomorrow to honor Dana's service to CalPERS  
7 Board.

8 So with that, I will entertain a motion to elect  
9 the Chair to replace Ms. Hollinger. And the by the way,  
10 this effective date is July not today, because we will  
11 have to wait for the end of the period for the  
12 resignation.

13 So for that I call on Ms. Paquin for...

14 ACTING COMMITTEE MEMBER PAQUIN: Thank you. We  
15 would like to nominate David Miller to serve as Chair of  
16 the Committee.

17 PRESIDENT JONES: Thank you. Mr. Miller has been  
18 nominated for Chair of the Risk and Audit Committee.

19 Are there any further nominations?

20 Are there any further nominations?

21 Are there any further nominations?

22 Hearing none.

23 I would entertain a motion to elect Mr. Miller by  
24 acclamation as Chair of the Risk and Audit Committee.

25 ACTING COMMITTEE MEMBER RUFFINO: So moved.

1 PRESIDENT JONES: So moved by Mr. Ruffino.

2 And?

3 COMMITTEE MEMBER MIDDLETON: Second.

4 PRESIDENT JONES: Second by Ms. Middleton.

5 All those in favor say aye?

6 (Ayes.)

7 PRESIDENT JONES: Opposed?

8 Hearing none.

9 Congratulations, Mr. Miller.

10 (Applause.)

11 VICE CHAIRPERSON MILLER: Okay. The next is the  
12 election of the Vice Chair. Do we do that now?

13 Yeah.

14 PRESIDENT JONES: You can do that.

15 VICE CHAIRPERSON MILLER: Okay. So I will do  
16 that. So I'll call for nominations for the position of  
17 Vice Chair.

18 And I've got Frank Ruffino. I call on Mr.  
19 Ruffino

20 ACTING COMMITTEE MEMBER RUFFINO: Yes. We would  
21 like to nominate Lisa Middleton for the Vice Chair.

22 VICE CHAIRPERSON MILLER: Okay. Do I have any  
23 further nominations.

24 Any further nominations?

25 Any further nominations?



1           Okay. Hearing none.

2           I'll entertain a motion to elect Lisa Middleton  
3 by acclamation.

4           ACTING COMMITTEE MEMBER PAQUIN: So moved.

5           VICE CHAIRPERSON MILLER: So moved by Ms. Paquin.

6           COMMITTEE MEMBER BROWN: Second.

7           VICE CHAIRPERSON MILLER: Seconded by Ms. Brown.

8           All in favor?

9           (Ayes.)

10          VICE CHAIRPERSON MILLER: Okay. The motion  
11 carries. So --

12          (Applause.)

13          VICE CHAIRPERSON MILLER: Thank you.

14          Do we need to shuffle chairs?

15          MS. HOPPER: No, we don't.

16          VICE CHAIRPERSON MILLER: We don't need to  
17 shuffle chairs. So we'll move on to next order of  
18 business, approval of the June 18th, 2019 Risk and Audit  
19 Committee timed agenda.

20          COMMITTEE MEMBER BROWN: Move approval.

21          VICE CHAIRPERSON MILLER: Moved by Ms. Brown.

22          ACTING COMMITTEE MEMBER PAQUIN: Second.

23          VICE CHAIRPERSON MILLER: Seconded by Ms. Paquin.

24          Any discussion?

25          Okay. So all in favor of the motion?

1 (Ayes.)

2 VICE CHAIRPERSON MILLER: The ayes seem to have  
3 it.

4 On to the executive report, and I'll call on  
5 Marlene.

6 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:  
7 Good morning.

8 VICE CHAIRPERSON MILLER: Good morning.

9 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:  
10 Good morning, Mr. Vice Chair. Congratulations to  
11 you and Ms. Middleton on your elections. Good morning,  
12 members of the Committee and Board members. Marlene  
13 Timberlake D'Adamo, CalPERS team member.

14 We have a rather full agenda today and we've  
15 started late, so we'll take notice of that, but we're  
16 going to get through it all. Promise.

17 On consent, you have the quarterly Audit,  
18 Compliance, and Risk Management reports. The action  
19 agenda items, Items 7A through 7c, presented today are the  
20 fiscal year 2019-2020 annual plans for Enterprise  
21 Compliance, Enterprise Risk Management, and the Office of  
22 Audit Services.

23 Agenda item 7d today also an action agenda item  
24 is the independent auditor's annual plan. For background,  
25 at the February 2019 meeting, this Committee awarded the

1 contract to Deloitte pending successful contract  
2 negotiations. We were unable to successfully negotiate or  
3 conclude those contract negotiations with Deloitte. BDO  
4 received the second highest score in the RFP process, so  
5 we moved forward with contract negotiations with BDO.  
6 Those negotiations were successfully concluded, and BDO is  
7 here today to present their plan, which includes their  
8 overall audit strategy, plan scope, and timeline for the  
9 2018-2019 audit.

10           Agenda Item 7e, also an action item, is the  
11 second reading of the proposed amendments to the CalPERS  
12 personal trading regulation.

13           Moving on to the information items, on  
14 information Agenda Item 8a, Buck Global, CalPERS  
15 independent actuarial firm, will present their review of  
16 the actuarial valuations of the contracting public agency  
17 plans as of June 30th, 2017.

18           And lastly, Agenda Item 8b is the third-quarter  
19 report of the strategic risk measures.

20           The next Risk and Audit Committee meeting will be  
21 here in Sacramento is scheduled for September 17th, 2019,  
22 and includes the 2018-2019 Annual Compliance Report.

23           Thank you, Mr. Vice Chair, this concludes my  
24 report. I would be happy to take any questions.

25           VICE CHAIRPERSON MILLER: Any questions?

1           Okay. Hearing none.

2           We'll move on to the first action consent item,  
3 approval of the February 20th, 2019 Risk and Audit  
4 Committee meeting minutes.

5           COMMITTEE MEMBER BROWN: Move approval.

6           VICE CHAIRPERSON MILLER: Moved by Ms. Brown.

7           COMMITTEE MEMBER PEREZ: Second.

8           VICE CHAIRPERSON MILLER: Seconded by Mr. Perez.

9           Any discussion?

10          Okay. I'll call for the question. Is that  
11 electric vote?

12          No. Okay. All in favor?

13          (Ayes.)

14          VICE CHAIRPERSON MILLER: Okay. The ayes have  
15 it.

16          CHIEF EXECUTIVE OFFICER FROST: Mr. Miller, could  
17 you also call for the dissenting vote as well.

18          VICE CHAIRPERSON MILLER: Any opposed?

19          CHIEF EXECUTIVE OFFICER FROST: Ask for any --  
20 yes. Thank you.

21          VICE CHAIRPERSON MILLER: No. No opposed. The  
22 ayes have it.

23          COMMITTEE MEMBER MIDDLETON: Abstain.

24          VICE CHAIRPERSON MILLER: One abstention. Please  
25 note Ms. Middleton has abstained.

1           Okay. The information consent items. I don't  
2 have any requests to pull anything --

3           COMMITTEE MEMBER BROWN: I just did.

4           VICE CHAIRPERSON BILLER: Oh, you just did.

5           Getting used to this system. Okay. Margaret  
6 Brown has the mic.

7           COMMITTEE MEMBER BROWN: Thank you. I have a  
8 question on Agenda Item 6c, attachment 1. And this is on  
9 the status of audit findings dashboard. I love the  
10 dashboard. It's pretty -- it's pretty great to look at.  
11 Sort of outstanding. So I'm actually looking at the first  
12 table or graph that talks about public agency and these  
13 are open items. I'm glad we don't have any -- are you  
14 there yet? Page 1 of 1, do you have that table?

15           CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

16           Um-hmm.

17           COMMITTEE MEMBER BROWN: Okay. Great. You have  
18 items resolved and then you have items opened. And  
19 there's 148 items from less than a year, which is normal.  
20 But you do have 21 open items two to three years open. So  
21 I'm just -- I'd like to get a flavor of what kind of items  
22 those are, and how -- are we going to get those closed?  
23 Just a -- I mean, a flavor, because I'm sure it's all over  
24 the Board.

25           CHIEF AUDITOR CHAPPUIE: Yes. This is Beliz

1 Chappuie, Audit Services. I wanted to correct one thing.  
2 Two items -- two findings age two and three years older,  
3 and one is aged one and two years older. It's not 21.  
4 Two is for that green sliver. I'm sorry, the numbers are  
5 so close to each other.

6 COMMITTEE MEMBER BROWN: Oh. Then I'm not --  
7 then I'm not worried.

8 CHIEF AUDITOR CHAPPUIE: Okay.

9 COMMITTEE MEMBER BROWN: If you had 21 findings  
10 that were two to three years old, I was concerned what you  
11 were doing with your time, Ms. Chappuie. But thank you  
12 very much. I withdraw my question.

13 Thank you.

14 CHIEF AUDITOR CHAPPUIE: Sure. Of course. Thank  
15 you.

16 VICE CHAIRPERSON MILLER: Okay. So any other --  
17 no other items. So I'll see if we have a motion to move  
18 the remaining consent items.

19 COMMITTEE MEMBER BROWN: I'll move approval on 6.

20 ACTING COMMITTEE MEMBER PAQUIN: Second.

21 VICE CHAIRPERSON MILLER: Okay. Moved by Ms.  
22 Brown, seconded by Ms. Paquin.

23 All in favor of the motion?

24 (Ayes.)

25 VICE CHAIRPERSON MILLER: Any opposed?

1 Any abstentions?

2 Okay. We'll move on to the action -- motion  
3 carries.

4 Move on to the action agenda items.

5 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

6 Okay. Hopefully you can see this.

7 (Thereupon an overhead presentation was  
8 presented as follows.)

9 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

10 Okay. Hopefully, you can see this. But this is  
11 our Annual Compliance Plan for the upcoming year  
12 2019-2020. Enterprise Compliance is in its fifth year of  
13 the five-year compliance plan that was approved by the  
14 Risk and Audit Committee in June of 2015.

15 During the past four years, the Enterprise  
16 Compliance plan has primarily focused on enhancing  
17 compliance and risk functions throughout the enterprise,  
18 increasing Compliance Program maturity, and increasing  
19 enterprise-wide compliance awareness.

20 In this last year of the plan, our initiatives  
21 will be focusing on supporting the strategic goal of risk  
22 management, specifically the goals to cultivate a risk  
23 intelligent organization by enhancing compliance and risk  
24 functions throughout the enterprise, and that's what's  
25 listed at the top.

1           The way that the plan is organized is that we've  
2 listed the objectives, the measure, and then the  
3 initiatives that are going to be used to support the goal  
4 and the objective. And the measure is how we're going to  
5 know that we got there or didn't, but mostly will.

6           And the -- and we have three initiatives in the  
7 top part of the measure and one initiative in the second  
8 part of the measure. And the measure itself is -- for the  
9 first one, it's our Compliance Program Maturity  
10 Assessment, which is a review that we do every year. We  
11 did it last year. It's a -- essentially, like a benchmark  
12 review that we do with peers that it's a provided -- it's  
13 a pretty large segment. It's 168 this year peers. We  
14 were the only pension plan, but we were the only pension  
15 plan last year, too. We are steadily improving our  
16 maturity assessment, which is a good sign for this. Our  
17 requirement, or at least the marker that we've set for  
18 ourselves, is to have an increase of 1 percent or one rating  
19 over -- by 21-22, which is when our strategic plan ends.

20           And so last year when we came to you, we were at  
21 a 2+ out of 5. This year when we took the assessment, we  
22 are at a 3. So we've actually gone up from a 2+ to a 3-  
23 to a 3. And the goal is to be at least at a 3+ by the  
24 time we end with our strategic plan.

25           So for the initiatives, we have the Build



1 Risk-specific Mitigation plans. We have Embed Policies  
2 and Procedures Into Operations, and Monitor the Compliance  
3 Risk Exposure. And so what we have in these initiatives  
4 are different tasks and deliverables that we're going to  
5 be doing, which are going to put us greater towards doing  
6 those things and then also increasing our maturity, which  
7 also in tern makes us a more risk-aware organization.

8 So what we've really tried to do in organizing  
9 this plan is to have it align very closely to the way that  
10 we are doing our strategic goals with the objectives and  
11 the initiatives.

12 The second strategic measure we have is our  
13 Compliance Employee Awareness Survey. And here, our goal  
14 is to develop -- or our initiative is to develop  
15 communication content. And the way that we're going to  
16 measure that is through a survey that we do annually with  
17 our employees. And our -- we were -- our target was to  
18 maintain a 90 percent through the end of the strategic  
19 plan. When we first took the survey, our baseline was at  
20 an 87 percent. And we're happy to say that this year when  
21 we took the survey, we were at 93. So we've achieved  
22 that, but now we need to maintain it. And so that's going  
23 to be our goal.

24 So at this point, I'm happy to take any questions  
25 that anyone may have about our plan.

1 VICE CHAIRPERSON MILLER: No. Seeing no  
2 questions.

3 I guess at this point, we'll call for the  
4 question of approving the plan. Is that --

5 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:  
6 Yes. This is an action item.

7 COMMITTEE MEMBER BROWN: Move approval.

8 VICE CHAIRPERSON MILLER: So it's an action item.  
9 So moved by Margaret Brown.

10 COMMITTEE MEMBER PEREZ: Second.

11 VICE CHAIRPERSON MILLER: And seconded by Jason  
12 Perez.

13 So any further discussion?

14 Okay. I'll call for the question.

15 All in favor?

16 (Ayes.)

17 VICE CHAIRPERSON MILLER: Nay? Any nays?

18 No abstentions.

19 The motion carries.

20 So on to 7b.

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

23 VICE CHAIRPERSON MILLER: This is Mr. Forrest  
24 Grimes. (Thereupon an overhead presentation was  
25 presented as follows.)

1 CHIEF RISK OFFICER GRIMES: Good afternoon, Mr.  
2 Chair. Congratulations. Committee members. Members of  
3 the Board, thank you for attending.

4 Item 7b is the 2019-20 Enterprise Risk Management  
5 Plan submitted for your review and approval. You can find  
6 the plan on pages 49 and 50 of your Board books. So  
7 really what you'll notice is that ERMD continues --  
8 Enterprise Risk Management Division - I'm sorry -  
9 continues to advance four multi-year workflows that are  
10 aligned to our strategic plan goals.

11 First, we support fund sustainability through  
12 facilitation of the asset liability management process.

13 Secondly, we are strengthening enterprise risk  
14 management capabilities by making continuous improvements  
15 to the risk management framework. You'll see that later  
16 in I think it's a 8c. We'll be talking about some of  
17 those improvements.

18 Third, expanding training and education to  
19 continue to cultivate a risk intelligent organization.

20 And finally, refining enterprise data management  
21 governance to continue to reduce complexity and risk to  
22 the organization.

23 And with that, I will stop to see if you have any  
24 questions or would like to talk about any specific --  
25 specifics of the plan in more detail. So back to you, Mr.

1 Chair.

2 VICE CHAIRPERSON MILLER: Any questions?

3 I'm not seeing any requests.

4 CHIEF RISK OFFICER GRIMES: Marlene previously  
5 told me that I have to ask you to approve this as well, so  
6 I'm going to do that.

7 (Laughter.)

8 VICE CHAIRPERSON MILLER: Okay. So seeing no  
9 requests or questions, I will call for the question to  
10 approve the Enterprise Risk Management Plan.

11 COMMITTEE MEMBER BROWN: I'll move approval.

12 COMMITTEE MEMBER MIDDLETON: Second.

13 VICE CHAIRPERSON MILLER: Moved by Margaret  
14 Brown, seconded by Lisa Middleton.

15 And so any discussion?

16 I'll call for the question.

17 All in favor?

18 (Ayes.)

19 VICE CHAIRPERSON MILLER: Any opposed?

20 No abstentions.

21 The motion carries.

22 CHIEF RISK OFFICER GRIMES: Thank you.

23 VICE CHAIRPERSON MILLER: So we will now go to 7c  
24 and Ms. Beliz Chappuie.

25 CHIEF AUDITOR CHAPPUIE: Congratulations, Mr.

1 Chair, Ms. Vice Chair on your elections. I'm looking  
2 forward to working with you this year. I'm Beliz  
3 Chappuie, Audit Services.

4 Agenda Item 7c is an action item. Staff is  
5 requesting Risk and Audit Committee to approve Office of  
6 Audit Services proposed audit plan for fiscal year  
7 2019-20.

8 As required by the internal auditing standards,  
9 Office of Audit -- Office of Audit Services prepared a  
10 risk-based audit plan to determine the priorities of the  
11 internal audit activity for the next fiscal year.

12 In conducting the risk assessment, Office of  
13 Audit Services, as the third line of defense, coordinated  
14 its efforts with the second line of defense, Enterprise  
15 Compliance Division and Enterprise Risk Management  
16 Division. We interviewed CalPERS executive and senior  
17 management teams and sought input from the Board members  
18 through surveys.

19 Staff also incorporated information from prior  
20 internal and external audits.

21 Office of Audit Services has two audit programs,  
22 internal audits and public agency reviews. In identifying  
23 internal audit assignments and activities, staff evaluated  
24 multiple risk factors, such as impact on the  
25 organization's strategic goals and financial statements,

1 changes in the operations and regulations and internal  
2 controls.

3 Office of Audit Services also allocated resources  
4 to consulting engagements, special projects, and  
5 activities related to contracted external audits and  
6 reviews.

7 For the public agency reviews, Office of Audit  
8 Services plans to complete four review cycles during  
9 fiscal year 2019-20 covering one compliance area per each  
10 review cycle. Using data analytics, staff will identify  
11 approximately 60 to 80 agencies for review for each cycle.  
12 As required by the Internal Auditing Standards, we'll  
13 remain responsive to the changes in the organization's  
14 operations and programs, and we will review and update the  
15 audit plan for fiscal year 19-20 as necessary.

16 Any modifications to the audit plan will be  
17 communicated to the Committee through the quarterly status  
18 reports.

19 This concludes my presentation and I'm happy to  
20 answer any questions

21 VICE CHAIRPERSON MILLER: Okay. We have a  
22 question from Ms. Brown.

23 COMMITTEE MEMBER BROWN: Thank you.

24 Ms. Chappuie, how long have you been in charge of  
25 the audits?

1 CHIEF AUDITOR CHAPPUIE: Approximately four years  
2 now.

3 COMMITTEE MEMBER BROWN: Okay. Great.

4 So I like the audit plan. And I've been going  
5 back and reading a number of the audits. You know, the  
6 public agency ones are very detailed. And those reviews  
7 apparently are public. They're not secret. Everybody can  
8 see them, what's going on.

9 But my question has to do with our internal  
10 audits that are apparently are either all confidential or  
11 attorney-client privileged. Going back, it seems like  
12 prior to August of 2016, they were not confidential or  
13 attorney-client privileged. But then beginning in August  
14 2016, they are all confidential or attorney-client  
15 privileged.

16 So I'm wondering at what time -- and I understand  
17 some of this stuff is sensitive, and so it needs to be  
18 confidential until we solve the problem. But at what  
19 point do those internal audits become transparent, do we  
20 show accountability and transparency for ourselves?

21 I mean, we're putting our public agency through  
22 the wringer, and sort of airing their dirty laundry. And  
23 I think CalPERS should do the same. So can you tell me  
24 why the change?

25 CHIEF AUDITOR CHAPPUIE: Sure. It's -- it was

1 through discussions with legal counsel. Auditing  
2 standards require us to consult with the Legal Office in  
3 matters concerning the organization. And through  
4 consultation with them, it was their suggestion to make  
5 them ACP, AWP. And if there are any further questions, I  
6 can defer that to the Legal Office to be addressed.

7 COMMITTEE MEMBER BROWN: Sure. Mr. Jacobs.

8 GENERAL COUNSEL JACOBS: Yes.

9 COMMITTEE MEMBER BROWN: So the question is why  
10 the change? It appears that prior to August 2016, none of  
11 the internal audits were attorney-client privileged or  
12 confidential. But beginning in August of 2016, all of  
13 them are labeled confidential or attorney-client  
14 privilege. And I'm wondering why that is?

15 GENERAL COUNSEL JACOBS: Sure. I don't think  
16 they're all, but you may be right. But the basic idea is,  
17 a lot of the stuff as you commented is very sensitive.  
18 Here's a classic example is cybersecurity. What we're  
19 doing with respect to cybersecurity, what -- whether we're  
20 discharging our duties properly with respect to  
21 cybersecurity. And those audits involve highly technical  
22 and often -- or all -- usually, if not always, highly  
23 sensitive information that -- and then as Ms. Chappuie  
24 said, you end up having a consultation with the Legal  
25 Office about that -- that information and about that



1 process.

2           It's overseen by the Legal Office, in the sense  
3 that Ms. Chappuie reports to the Legal Office for  
4 administrative purposes only. She does, of course, report  
5 directly to this Committee and to the CEO, but we handle  
6 the administrative matters. And so for that reason, we  
7 saw we -- we thought that it would make sense to protect  
8 the interests of the entity that we would make those  
9 attorney-client privileged and attorney work-product and  
10 confidential.

11           COMMITTEE MEMBER BROWN: Great. I would hope  
12 that the Legal Office, whoever does those reviews, does  
13 use discretion. And if something is merely embarrassing  
14 or is embarrassing to CalPERS, that that is isn't a legal  
15 reason for something to be confidential or attorney-client  
16 privilege, and that we would basically not classify  
17 everything as attorney-client privilege. And it has been,  
18 every single thing since August of 2016. I looked at all  
19 of them.

20           So I think we need to use some discretion.  
21 Everything is not confidential or attorney-client  
22 privilege, and we need to exercise that correctly, because  
23 I believe in accountability and transparency. We request  
24 it of our public agencies and we should do the same for  
25 ourselves.

1 Thank you.

2 GENERAL COUNSEL JACOBS: Sure. I take your  
3 point. The -- the importance is not of maintaining  
4 confidentiality is not to protect us from embarrassment.  
5 It is to protect us from potential litigation and the  
6 like. But I take your point and happy to consider that.

7 COMMITTEE MEMBER BROWN: Thank you.

8 VICE CHAIRPERSON MILLER: Okay. I see no further  
9 requests to speak. And so this is an action item.

10 COMMITTEE MEMBER BROWN: Move approval.

11 ACTING COMMITTEE MEMBER PAQUIN: Second.

12 VICE CHAIRPERSON MILLER: It's moved by Brown,  
13 seconded by Paquin.

14 No further requests to speak, so I'll call for  
15 the question.

16 All in favor?

17 (Ayes.)

18 VICE CHAIRPERSON MILLER: Any opposed?

19 No abstentions.

20 Okay. The motion passes.

21 And 7d stays with you Ms. Chappuie.

22 (Thereupon an overhead presentation was  
23 presented as follows.)

24 VICE CHAIRPERSON MILLER: The independent  
25 auditor's -- oh, there we go.

1 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

2 Sorry. I jumped the gun a little bit 7e is  
3 CalPERS Personal Trading Regulation Amendment. So for the  
4 benefit of those of you who have not been on the -- to the  
5 benefit of those of you who haven't been on the Committee  
6 for a long time, CalPERS actually has a Personal Trading  
7 Regulation, which names certain individuals as covered  
8 persons and it names certain security types as covered  
9 securities. And it's basically a method -- a mechanism  
10 through which we can monitor the trades of certain  
11 individuals.

12 And so the regulation itself was implemented in  
13 2012. And this is the first update since its  
14 implementation. In 2018, last year June, exactly a year  
15 ago almost, the first -- the regulation was brought to  
16 this Committee for review. And since then, it has gone  
17 through the public comment section, which ended on April  
18 15th, 2019. There were no public comments that were  
19 received. So the regulation that is coming to you is  
20 essentially unchanged from what was brought a year ago,  
21 because there were no comments and there were  
22 modifications that were made.

23 The proposed amendment has three goals, which is  
24 to: Update the regulation to comply with more recent SEC  
25 guidance - as I mentioned this was implemented in 2012; to

1 align the terminology with SEC definitions; and to further  
2 clarify any ambiguous or confusing areas of the  
3 regulation. Again, it's been since 2012. And with the  
4 six or seven year history that we've had administering it,  
5 we've noticed a couple of things that we'd like to  
6 correct.

7           The regulations itself is planning to go to the  
8 OAL subject to your approval on this second reading. And  
9 then, if approved, it will be published in October of this  
10 year.

11           That is all I have to report. And this is also  
12 an action item.

13           VICE CHAIRPERSON MILLER: Okay. I see no  
14 requests to speak. So I'll entertain a motion.

15           COMMITTEE MEMBER PEREZ: So moved.

16           VICE CHAIRPERSON MILLER: Actually, we have a  
17 question from Ms. Middleton.

18           COMMITTEE MEMBER MIDDLETON: Sorry. I was slow  
19 on the uptake here.

20           VICE CHAIRPERSON MILLER: Oh, no worries. I'm  
21 slow on it too.

22           COMMITTEE MEMBER MIDDLETON: Ms. Timberlake  
23 D'Adamo, in terms of the covered individuals, are you  
24 satisfied that this is the correct list, and how have you  
25 gone about reviewing whether or not the list is either too

1 broad or too narrow?

2 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So  
3 yes, I am satisfied. The exercise that we did this year  
4 was to take a look at the covered persons to look at their  
5 access, and not to be overly broad in administering this  
6 for all individuals that sort of are in the Investment  
7 Office. Most of our covered persons are in the Investment  
8 Office. But to really look at who has access to either  
9 closed session materials, who has access to different  
10 information, or who makes investment decisions. And so  
11 we've narrowed our scope around those people, because we  
12 really want to make sure that we're focusing on those  
13 people, and we're also requiring the rigors of the  
14 Personal Trading Regulation really to only those that  
15 really need to have it.

16 COMMITTEE MEMBER MIDDLETON: And in doing the  
17 review, is that largely self-reporting or what systems do  
18 you have in place to identify something that may not be  
19 self-reported?

20 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So  
21 we have a software system that we use. And we require  
22 covered persons to submit their personal trading accounts  
23 to this system, where we do electronic feeds. And so on a  
24 daily basis we're getting electronic feeds of covered  
25 persons trades. At that point, the system then notifies

1 or alerts us if it looks like there was a violation. And  
2 a violation could be where an individual forgot to or  
3 didn't preclear a transaction, and so it hits our system.  
4 And if there isn't a preclearance mechanism that had been  
5 initiated, it would alert us, and then we would engage  
6 with that person.

7 COMMITTEE MEMBER MIDDLETON: Of the total number  
8 of covered people, approximately how many are actually  
9 active in trading?

10 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

11 That's a good question. How many are active? So  
12 we have -- I don't -- Justin, do you happen to know. I'm  
13 going to call for a lifeline.

14 COMMITTEE MEMBER MIDDLETON: And I'm looking for  
15 an approximation on that one.

16 ASSISTANT CHIEF COMPLIANCE OFFICER WALKER: Good  
17 morning. Justin Walker, CalPERS team member. We have --  
18 we currently have approximately 650 covered persons. That  
19 number is actually going to be reduced significantly under  
20 the new regs. We're really only looking at people that  
21 have access to either planned trade information or making  
22 investment-related decisions.

23 Currently, we -- and I -- if we look at the  
24 compliance activity report, if memory serves, we typically  
25 see about 50 people who are actually trading in a given

1 month.

2 COMMITTEE MEMBER MIDDLETON: All right.

3 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

4 Does that answer your question?

5 COMMITTEE MEMBER MIDDLETON: It does. Thank you.

6 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

7 Okay.

8 VICE CHAIRPERSON MILLER: Okay. At this point,  
9 we'll entertain a motion to approve.

10 COMMITTEE MEMBER BROWN: Move approval.

11 VICE CHAIRPERSON MILLER: Okay. Moved by Ms.  
12 Brown.

13 COMMITTEE MEMBER MIDDLETON: Second

14 VICE CHAIRPERSON MILLER: Seconded by Ms.  
15 Middleton.

16 I'll call for the question.

17 All in favor?

18 (Ayes.)

19 VICE CHAIRPERSON MILLER: Any opposed?

20 No abstentions.

21 The motion carries.

22 And so that pretty much concludes the action  
23 agenda items. So we'll move on to information agenda  
24 items.

25 MS. HOPPER: David, Item 7e.

1 VICE CHAIRPERSON MILLER: 7e, I thought that's  
2 what we just did. Yeah I think C and D got bunched  
3 together and that's how --

4 CHIEF AUDITOR CHAPPUIE: We're on 7d.

5 VICE CHAIRPERSON MILLER: So we just did 7e, so  
6 we'll move on to 8a, and I'll turn it --

7 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: No.  
8 we have to do 7d.

9 VICE CHAIRPERSON MILLER: Oh, we didn't do 7d.  
10 Okay.

11 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:  
12 We just did 7e

13 CHIEF AUDITOR CHAPPUIE: Oh, we skipped one.  
14 Sorry.

15 VICE CHAIRPERSON MILLER: Okay. So we'll come  
16 back to 7e

17 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:  
18 That's why I had them come up.

19 CHIEF AUDITOR CHAPPUIE: I'm sorry.

20 VICE CHAIRPERSON MILLER: Back to Ms. Chappuie,  
21 7d, the Independent Auditor's 2019-2020 Annual Plan.

22 CHIEF AUDITOR CHAPPUIE: Good morning, Mr. --

23 VICE CHAIRPERSON MILLER: Oh, Jason has a  
24 question.

25 COMMITTEE MEMBER PEREZ: I'm not sure of the



1 rules. Am I able to ask a question on what we just talked  
2 about?

3 Yes. Okay.

4 So the system -- your compliance system, someone,  
5 let's say I -- because I think we're covered under that,  
6 too, right?

7 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

8 Yes.

9 COMMITTEE MEMBER PEREZ: So if I wanted -- I  
10 don't. But if I wanted to make an investment, I submit a  
11 request through the system?

12 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

13 Yes.

14 COMMITTEE MEMBER PEREZ: And then you all review  
15 it and say that's good to go or bad?

16 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

17 Yes.

18 COMMITTEE MEMBER PEREZ: Okay. How many -- is  
19 there a report in our resources on violations?

20 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

21 Yes.

22 COMMITTEE MEMBER PEREZ: Okay.

23 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

24 Yes. In the item -- the consent item, our  
25 quarterly report, we give you information about the number

1 of violations that occurred during the previous quarter.

2 COMMITTEE MEMBER PEREZ: Thank you.

3 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

4 You're welcome.

5 VICE CHAIRPERSON MILLER: Okay. Thank you.

6 Sorry about the little mix up on the order of  
7 agenda items there. I'm, you know, a student driver here  
8 today.

9 (Laughter.)

10 CHIEF AUDITOR CHAPPUIE: I think I mislead. My  
11 apologies.

12 (Laughter.)

13 VICE CHAIRPERSON MILLER: No worries.

14 CHIEF AUDITOR CHAPPUIE: Okay. Good morning. I  
15 think it's still good morning -- morning. Mr. Chair and  
16 members of the Committee, Beliz Chappuie, Office of Audit  
17 Services. Agenda Item 7d is an action item.

18 Staff is requesting Risk and Audit Committee to  
19 approve the Board's independent auditor BDO's audit plan  
20 for the audit of CalPERS' financial statements for the  
21 fiscal year ending June 30th, 2019.

22 The presentation is to provide the Risk and Audit  
23 Committee the opportunity to hear from the independent  
24 auditor regarding their approach, objectives, scope, and  
25 deliverables for the financial statement audit and to

1 enable the Committee to ask questions -- questions.

2 BDO staff are presenting with me today. And I  
3 would like to turn it over to them to present their audit  
4 plan.

5 MR. KARO: Good morn -- good afternoon, Mr.  
6 Chairman and members, the Committee. I'm Kevin Karo, with  
7 BDO. I'm the regional managing partner for the West  
8 Region Assurance Practice. And with me today are Billy  
9 Kim, the engagement partner and Keith Hammond the second  
10 concurring partner on the engagement.

11 I just wanted to express our thanks for allowing  
12 us to present this morning -- or this afternoon. And I'm  
13 going to turn it over to Billy to present our audit plan.

14 MR. KIM: Thanks, Kevin.

15 Hell, Chairman and members of the Committee. As  
16 Kevin mentioned, my name is Billy Kim. I'm an audit  
17 partner based out of San Francisco and I will be your lead  
18 in engagement partner for the CalPERS audit. Very excited  
19 to be here to serve you. And as Kevin mentioned, all  
20 the -- and if you look in the back in the audience, we do  
21 have the rest of our leadership team also here as well.

22 And so we are collectively just really thankful  
23 to be here and committed to working together to deliver  
24 upon the audit, and to do it in a way that we commit to a  
25 quality, timely, and efficient audit. So that's our goal.

1           So with that said, to be successful in this, I'm  
2 a firm believer that it's -- that investing more upfront  
3 time in planning is crucial. And so that includes  
4 involvement of my leadership team and solidifying audit  
5 strategy for each deliverable that will be -- we will be  
6 providing an opinion upon.

7           So this includes providing an audit opinion over  
8 the CAFR, the financial statements, as of June 30, 2019  
9 for the year end, and as well as the GASB 68, GASB 75  
10 schedules as well.

11           As it relates to timing, we will complete all of  
12 our work on the CAFR before the end of October. That's  
13 where statutory deadlines exist. And we'll report on the  
14 results of our Audit plan five months from now to you in  
15 November.

16           The schedules that I mentioned earlier, in terms  
17 of the GASB 68, 75 schedules deadlines are -- for those  
18 are end of December and end of January respectively.

19           So where are we -- where are we now?

20           You know, we've been just rapidly trying to get  
21 up to speed with what we need to know to -- in order to  
22 plan and to complete planning and to really start and  
23 execute upon the audit.

24           So starting even yesterday, we met with  
25 management, all of yesterday and this morning, to get more

1 familiar with your organization. This included a meeting  
2 with Marcie Frost, CEO, and to understand her perspective  
3 and expectations as to the audit. Also, met with Michele  
4 Nix, Controller, as well with -- as well as other various  
5 groups within the accounting umbrella, treasury, and also  
6 in Investment Office to really kind of understand more  
7 about what they do, and specifically getting a better  
8 understanding of the potential risks that we need to focus  
9 on.

10 We're going to continue to further meet with  
11 people, even after this meeting, and so that we can really  
12 finalize what our approach is going to be specifically, in  
13 tackling the audit. And so as it relates to audit  
14 strategy, you know, our audit strategy is actually  
15 predicated upon assessing risks of material misstatements.  
16 And so -- as it relates to the financial statements that  
17 may exist.

18 And so this requires us to actually get an  
19 understanding of your organization, the internal control  
20 environment, and also about the applicable laws,  
21 regulations, and accounting policies that exist at  
22 CalPERS.

23 Our preliminary thoughts are included within the  
24 audit plan document that we provided to you in advance.  
25 I'm just going to highlight a couple of areas that are

1 included within that report.

2           So specifically as it relates to investments, a  
3 significant area with the market value of 365 billion of  
4 investments as of a couple days ago. This is reported  
5 based upon fair value within your financial statements.  
6 And so this is an area where we do -- we will plan -- or  
7 we are planning to spend a lot of time just to make sure  
8 we're comfortable with the values that exists within your  
9 financial statements.

10           So this includes sending out confirmations to the  
11 relevant custodian, as well as the investment managers to  
12 obtain comfort over the existence of these investments and  
13 also to ultimately test the fair value independently.

14           As part of the retirement plans, and, you know,  
15 there are significant amount of contributions that are  
16 received from the employers, as well as from employees of  
17 the specific plans that CalPERS manage. And this is where  
18 we are also planning to send confirmations to validate the  
19 existence of such contributions and to test a sample of  
20 recorded contributions based upon recalculations of the  
21 require contribution rates.

22           Lastly, for your pension post-retirement benefit  
23 liabilities, one of the other key areas of focus that we'd  
24 be spending a good amount of time is regarding your  
25 actuarial calculated liabilities, specifically the

1 assumptions that are going into those specific  
2 calculations.

3 And so one of those key assumptions are the  
4 information that's coming from the employer participants,  
5 the census data, and just getting our hands just  
6 comfortable with overall the completeness and accuracy of  
7 that information that's coming from all of those different  
8 employer participants.

9 So our audit strategy is -- involves extensive  
10 partner and manager involvement. And we're going to  
11 continue to work to finalize our plan, and how we  
12 practically will actually execute upon the plan.

13 So with that, you know, thank you for your time  
14 and we're open to any questions that you may have for us.

15 VICE CHAIRPERSON MILLER: Yeah. Well, thank you.  
16 And I appreciate that you were here bright, bright and  
17 early this morning. And just appreciate the challenge  
18 that's ahead, this transition. It's a big job. We know  
19 it's a big job. It's a critically important job. And  
20 really just, you know, as the Vice Chair, I just see the  
21 amount of work that goes into everything surrounding risk  
22 and audit. And I'm on that learning curve as well, and I  
23 look forward to being on that learning curve as you  
24 transition in. And to the extent that we can be of  
25 service and help, I know our team is really ready to go,

1 anxious to get into the heavy lifting, and, you know,  
2 build a good working relationship with you as our new, you  
3 know, external team members of our overall team here to,  
4 you know, move forward. And just looking forward to the  
5 next few months, and making those deadlines, and getting  
6 back on track.

7           Anything for from anyone else?

8           Question. Okay. Hit your little button there  
9 and I'll turn the mic on. There you go.

10           COMMITTEE MEMBER MIDDLETON: It always goes  
11 without saying but, in fact, it does need to be said that  
12 the Board expects that you will have access to all  
13 information that you believe is appropriate to conduct  
14 your work. And if, for any reason, you're not able to  
15 have the access that you need, either to individuals or  
16 information, it is our expectation that you will report  
17 that back to the Board.

18           MR. KIM: Thank you, Vice Chair.

19           VICE CHAIRPERSON MILLER: Okay. At this point, I  
20 would entertain a motion to approve the independent  
21 auditor's 2019-2020 annual plan.

22           COMMITTEE MEMBER BROWN: Move approval.

23           VICE CHAIRPERSON MILLER: Moved by Ms. Brown.

24           COMMITTEE MEMBER MIDDLETON: Second.

25           VICE CHAIRPERSON MILLER: Seconded by Ms.



1 Middleton.

2 I see no further discussion is requested, so I'll  
3 call for the question.

4 All in favor?

5 (Ayes.)

6 VICE CHAIRPERSON MILLER: Any opposed?

7 No abstentions. The motion carries.

8 Thank you. And, you know, congratulations. And  
9 let's get ready and get busy.

10 MR. KIM: Thank you. We'll definitely do that.

11 VICE CHAIRPERSON MILLER: Thank you.

12 Okay. Now, we're moving on to the information  
13 agenda items. And I'll leave it with you, Ms. Chappuie  
14 for Item 8, Third-Party Valuation and Certification of the  
15 Contracting Public Agency Plans.

16 CHIEF AUDITOR CHAPPUIE: Mr. Chair and members of  
17 the Committee, Beliz Chappuie, Office of Audit Services.

18 Agenda Item 8a is an information item related to  
19 actuarial parallel valuation of the contract --  
20 contracting public agency plans as of June 30, 2017. The  
21 Board retains the services of an outside actuarial firm to  
22 review the work of CalPERS actuarial staff and to certify  
23 that their work complies with actuarial professional  
24 standards.

25 Buck Global, a third-party actuarial firm, was

1 selected by the Board in November 2015. Buck Global  
2 completed its independent review of the contracting public  
3 agency plans. David Driscoll from Buck Global is joining  
4 me today presenting their report and findings to the  
5 Committee and to answer any questions that you may have.

6 I'd like to turn it over to David.

7 MR. DRISCOLL: Okay. Thank you. Thank you,  
8 Beliz and thank you to the members of the Committee for  
9 having us in today. And congratulations to the newly  
10 elected officers of the Committee.

11 As noted, pursuant to our contract, we have  
12 completed an audit of the actuarial valuations prepared as  
13 of June 30th, 2017 by CalPERS's Actuarial Unit. We  
14 reviewed 20 sample public agency plans, which included the  
15 10 largest such plans and 10 others that were randomly  
16 selected from among those that had had some kind of change  
17 in methods or assumptions used in their valuation.

18 Overall, our findings were that the work of the  
19 CalPERS Actuarial Unit continues to be of very high  
20 quality. The reports are based on reasonable actuarial  
21 assumptions and methods. They fully and fairly present  
22 the actuarial positions of the plans that were valued as  
23 of the valuation date. And the reports comply with all  
24 applicable actuarial standards of practice. So overall,  
25 we continue to find that the valuations are being

1 appropriately prepared and reflect a very high level of  
2 attention to detail and quality.

3           What we do in the process of completing the  
4 audit, in addition to looking at the reports, is to  
5 attempt to replicate the numbers that are in the reports  
6 to within certain tolerances. And to the extent that  
7 there are differences, we find that the sources of the  
8 difference can be divided into two groups. One group  
9 is -- are simply differences in the manner in which the  
10 lives of people who are covered in the retirement plans  
11 are modeled between the software used by CalPERS and the  
12 software that we use, which is a major commercially  
13 available actuarial valuation software system.

14           These kinds of differences do not reflect say a  
15 difference of opinion or, you know, one approach being  
16 correct and the other not being correct. They are simply  
17 differences in the way in which one approaches the  
18 modeling of a pension plan participant over his or her  
19 lifetime. You know, one is not right, one is not wrong.  
20 You simply have to pick an approach and stick with it.

21           The vast majority of the differences that we  
22 observed between our results and those of CalPERS, which  
23 were generally quite small, are attributable to those  
24 issues. There were two relatively minor issues that do  
25 reflect a difference between the way we would model

1 something and the way that CalPERS Actuarial Unit has  
2 modeled them in current valuations.

3 One relates to the valuation of what is known as  
4 a refund of contribution benefit. The other relates to  
5 the valuation of liabilities for child beneficiaries of  
6 retirees. These are both very minor issues in terms of  
7 their overall significance and they don't, in any way,  
8 compromise what I said earlier about the fact that we  
9 think that the numbers in the CalPERS valuations are quite  
10 good and are not, in any way, materially incorrect.

11 So we have suggested to the CalPERS Actuarial  
12 Unit management that these issues be addressed. We have  
13 additionally made a couple of suggestions regarding the  
14 content of the report in terms of the way certain things  
15 are described and in terms of the way certain demographic  
16 information is presented. But again, these are  
17 suggestions. These do not reflect what we would consider  
18 imperfections or mistakes. They are just suggestions.

19 So overall, in completing this phase of the  
20 audit, we came away again with a good opinion of the  
21 actuarial work that you're receiving from the CalPERS  
22 Actuarial Unit. And I'm happy to entertain questions  
23 concerning our reports.

24 VICE CHAIRPERSON MILLER: Okay. Thank you, Mr.  
25 Driscoll. We do have a couple questions. I'll start with

1 Ms. Brown.

2 COMMITTEE MEMBER BROWN: Thank you.

3 I just want to go to page 9 of 18, the summary of  
4 findings.

5 MR. DRISCOLL: Um-hmm.

6 COMMITTEE MEMBER BROWN: And it you -- is that my  
7 tab page. Hold on. I've got to go to my -- I'm looking  
8 for red marks. Give me one second.

9 I want to go to -- not summary of findings. I  
10 want to go to the -- where we talk about our assumptions.  
11 And one is -- I can't find my marked up page. One is we  
12 talked about that the assumption is 7.25 and it's going  
13 down to 7 percent. And you made a comment on that.

14 MR. DRISCOLL: Yes.

15 COMMITTEE MEMBER BROWN: But you did not comment  
16 on the change in the I guess escalation of salaries.  
17 We're currently using like -- I'm not looking at it, but  
18 2.87 and it's going down to 2.5. And then there's another  
19 assumption change and you didn't make a comment on that  
20 other. So there were three assumptions, but you only made  
21 a comment on one that it was fine. You did not comment on  
22 the other two.

23 MR. DRISCOLL: Well, we believe that all of the  
24 assumptions are reasonable and were selected in accordance  
25 with actuarial standards of practice. We made a

1 particular comment regarding the discount rate, because  
2 that is typically the focus of so much attention these  
3 days

4 COMMITTEE MEMBER BROWN: Great. Because you --  
5 when you don't mention the other two, I worry that --

6 MR. DRISCOLL: Yeah.

7 COMMITTEE MEMBER BROWN: -- one is okay and the  
8 other two are not. And then the other one comment is on  
9 page -- or the question I have is on page 10 of 18 and  
10 areas for refinement.

11 MR. DRISCOLL: Yes.

12 COMMITTEE MEMBER BROWN: There's a big bullet  
13 point about there's some inconsistency in the refund to  
14 contributions benefit. And you say, generally, it's not  
15 that -- it's inconsequential, but when it comes to the  
16 PEPRA plans, it could be bigger. So did our team have  
17 anything to say about that, or were you going to make a  
18 change or...

19 MR. DRISCOLL: Well, we did look at that at some  
20 depth. I would have to defer to the management of the  
21 Actuarial Unit as to whether or not the -- they will make  
22 a change. The difference between the approach that  
23 they're taking and the approach that we take, generally  
24 produces very small differences and results. It's very  
25 noticeable for these PEPRA plans only, because the PEPRA

1 plans are in the very, very early years of their  
2 existence. And when you get, you know, even differences  
3 of a small number of dollars into very small numbers, it  
4 looks, you know, on its face like it's significant.

5 But, in fact, over the course of time, we think  
6 most of the difference between our results and those of  
7 the CalPERS actuaries for the PEPRA plans are due to  
8 things like rounding of ages and other issues that we  
9 identified earlier as just differences between the way our  
10 valuation systems works and their valuation systems works.  
11 And we expect that they're going to go away. I think we  
12 used the words "transitory and insignificant" to describe  
13 the differences between them.

14 COMMITTEE MEMBER BROWN: You did, but it says --  
15 but it does show up more noticeably in some of the smaller  
16 PEPRA plans.

17 MR. DRISCOLL: Right.

18 COMMITTEE MEMBER BROWN: So maybe the refined --  
19 Mr. Terando would like to talk about areas of refinement.

20 CHIEF ACTUARY TERANDO: I think there were two  
21 areas --

22 COMMITTEE MEMBER BROWN: Um-hmm.

23 CHIEF ACTUARY TERANDO: -- that were specifically  
24 mentioned. One was on the benefits page that -- children.

25 COMMITTEE MEMBER BROWN: Children.

1 CHIEF ACTUARY TERANDO: Yeah. And that's  
2 something that we're going to be addressing going forward  
3 in our new system.

4 On the other one, you're getting into a  
5 theoretical actuarial discussion about which -- about how  
6 refunds should be calculated.

7 COMMITTEE MEMBER BROWN: Oh, let's have that.

8 CHIEF ACTUARY TERANDO: Do you really want --

9 COMMITTEE MEMBER BROWN: I'm kidding.

10 (Laughter.)

11 CHIEF ACTUARY TERANDO: No. I mean, we could --  
12 we could -- we could go into that. And if you want, I  
13 could explain offline too.

14 COMMITTEE MEMBER BROWN: Offline would be great.

15 CHIEF ACTUARY TERANDO: There's some -- it's --  
16 to what David had mentioned before, it's just a different  
17 philosophy in terms of how do you approach this. There's  
18 not right answer. And the differences are relatively  
19 small. And you also have to consider that, you know, it's  
20 a bit more pronounced in the PEPRAs plans. All these plans  
21 are in the pool. So when you see the overall pool  
22 results, you don't get this variation. It's again --  
23 being in the pool, you're getting to see this variation.  
24 And as the plans mature, any type of differences would  
25 kind of just go away as well.



1 COMMITTEE MEMBER BROWN: And that was my only  
2 concern, that we're not skewing the numbers or...

3 CHIEF ACTUARY TERANDO: No. I think it's just  
4 a --

5 COMMITTEE MEMBER BROWN: You've got a small pool  
6 to start with.

7 CHIEF ACTUARY TERANDO: It's a small pool to  
8 start with.

9 COMMITTEE MEMBER BROWN: Okay. Thank you.

10 VICE CHAIRPERSON MILLER: Okay. And I have Ms.  
11 Paquin.

12 ACTING COMMITTEE MEMBER PAQUIN: Oh, thank you.

13 My question is on section 5, which is the  
14 recommendations on number 2, consider including additional  
15 demographic data into the pooled public agency valuations.  
16 I'm just curious for Mr. Terando if that's something that  
17 you've considered, or thought about, or what is your  
18 opinion on that?

19 CHIEF ACTUARY TERANDO: Yeah. We're also -- we  
20 are always looking for improvements in the report in terms  
21 of what we can add. There was new ASOP that came out  
22 recently - that's an Actuarial Standard of Practice - on  
23 risk disclosures. And so we're increasing the disclosures  
24 on risk. And we're also looking to add more information  
25 on the census data for the plans as well.

1           Since right now, we're in the -- pretty much in  
2 the process of issuing these reports now, we did get some  
3 changes in. But we're always looking to you, know add,  
4 more information to our reports. And so, you know, based  
5 on the recommendation, we'll try and get those in our  
6 reports going forward.

7           ACTING COMMITTEE MEMBER PAQUIN: Thank you.

8           And is this a difficult thing to do or...

9           CHIEF ACTUARY TERANDO: Because it's the -- you  
10 know, we're talking about over 3,000 plans, if we don't  
11 have that plan up front and early, it's kind of difficult  
12 to try and put that in at the last moment, because it is  
13 basically all -- it's programmed changes that we have to  
14 make sure they get in. We have the information. We just  
15 have to get that programmed in and into the reports.

16           ACTING COMMITTEE MEMBER PAQUIN: And last  
17 question is, because this is a pooled database that you're  
18 looking at, if you don't receive the same types of data  
19 from the majority of the employers, would that skew your  
20 analysis?

21           CHIEF ACTUARY TERANDO: We actually do receive  
22 the same information.

23           ACTING COMMITTEE MEMBER PAQUIN: Okay.

24           CHIEF ACTUARY TERANDO: Pooling is just for  
25 agencies whose active member county is below 100 members.

1 And then the way we calculate the normal cost is a pooled  
2 normal cost. And how we allocate the assets and the  
3 liabilities among the plans is different than say, what we  
4 call, the non-pooled plans, the larger plans. But the  
5 information we get from the employers is the same  
6 information.

7 ACTING COMMITTEE MEMBER PAQUIN: Okay. Great.  
8 Thank you.

9 CHIEF ACTUARY TERANDO: Sure.

10 VICE CHAIRPERSON MILLER: Okay. No further  
11 questions. Thank you.

12 And on to 8b Enterprise Risk Management Framework  
13 Review. Mr. Grimes, I believe, is coming back up.

14 (Thereupon an overhead presentation was  
15 presented as follows.)

16 CHIEF RISK OFFICER GRIMES: Hello again, Mr.  
17 Chair. Forrest Grimes, CalPERS team.

18 Item 8b is the Committee's first look at the  
19 dashboard and exception reports for the Strategic Risk  
20 Measures. And you can find these on pages 106 through 110  
21 of your Board books.

22 These measures and tolerances were established by  
23 the Committee in June of 2018. Three measures exceeded  
24 the risk tolerances set by the Committee that are  
25 categorized as requiring attention, and they include the

1 two measures regarding the probability of employer  
2 contribution rate increases.

3 Now, the Board was previously made aware of this  
4 with the funding levels and risk report presented to the  
5 Finance and Administration Committee in November of 2018  
6 by the Actuarial team.

7 And then externally proposed bills that have the  
8 potential to increase the complexity of the plan is also  
9 being reported as red. And the Board was most recently  
10 apprised of these bills during the May 2019 State and  
11 federal legislation update.

12 We are proposing that these reports be presented  
13 to you quarterly moving forward. It is intended to  
14 provide Committee members with useful information on the  
15 status of enterprise risks, while providing the team with  
16 the management tool to aid in risk-informed decision  
17 making. And with that, I'm going to stop and see if you  
18 have any questions, comments, or would like to discuss any  
19 of the material.

20 Thank you.

21 VICE CHAIRPERSON MILLER: No. Seeing none.

22 Oh, there it is.

23 COMMITTEE MEMBER MIDDLETON: Thank you.

24 Could you talk about your analysis related to the  
25 risk of employer contributions having to increase?

1 CHIEF RISK OFFICER GRIMES: Yes, I can. So this  
2 really is addressed -- and Mr. Baggesen mentioned this  
3 yesterday. There's a Committee, which I am the Chair of,  
4 called the ALMAC, Asset Liability Management Advisory  
5 Committee. And we really do talk about these  
6 interrelationships ships, because that's really what they  
7 are is interrelationships between such things as discount  
8 rate, amortization schedules, the ability of the employers  
9 to obviously make larger contributions. That's really the  
10 format where that really gets discussed.

11 So the analysis that we have done -- these  
12 specific measures, Ms. Middleton, I'm going to tell you  
13 now that we don't think that they're probably as good as  
14 they can be. They're what we're starting with. And the  
15 reason that I'm saying that they're not as good as they  
16 can be is because when you look at what it's really  
17 measuring, it's measuring the probability of these  
18 contribution rates going up between now and 30 years from  
19 now, any time during that period of time.

20 And it may not be, we don't think -- and Scott is  
21 here to back me up, which is -- I'm very comforted to see  
22 him down there, if you want to get into more detail. But  
23 really, we think that perhaps there could be measures that  
24 we can come up with that would be more near term, because  
25 we think that the employers are more concerned about near

1 term than they are about, hey, between now and 30 years  
2 from now. They're kind of thinking between now and 10  
3 years from now I have to think about that particular -- or  
4 even five.

5 So that -- I hope that answers your question, but  
6 that's what this is really measuring.

7 COMMITTEE MEMBER MIDDLETON: I think you're  
8 absolutely on the right track in trying to identify near  
9 term. I think we also need to be looking at breaking this  
10 down between near, medium, and long term. When I think of  
11 near term -- I have to go back to Palm Springs and approve  
12 a budget tomorrow night. But we need to be looking at  
13 providing greater predictability and reliability to  
14 employers, so anything in this area is critical.

15 CHIEF RISK OFFICER GRIMES: Understood. And I  
16 think that -- I can assure you that that's top of mind for  
17 CalPERS.

18 COMMITTEE MEMBER MIDDLETON: Thank you.

19 VICE CHAIRPERSON MILLER: Okay. I think that's  
20 it for questions.

21 CHIEF RISK OFFICER GRIMES: Thank you.

22 VICE CHAIRPERSON MILLER: Okay. Thank you, Mr.  
23 Grimes.

24 And back to Marlene Timberlake D'Adamo for  
25 Summary of Committee Direction.

1 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

2 I did not take any direction.

3 VICE CHAIRPERSON MILLER: Okay -- and

4 CHIEF EXECUTIVE OFFICER FROST: Yeah. I think  
5 Ms. Middleton's point about updating this report -- the  
6 Risk Report --

7 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

8 Okay.

9 CHIEF EXECUTIVE OFFICER FROST: -- to show  
10 short -- shorter, middle term, longer term in the way that  
11 we do the score carding. So I took that as Committee  
12 direction.

13 VICE CHAIRPERSON MILLER: Okay. Thank you.

14 And I am not aware of any public comment  
15 requests, but I might not be looking at the right spot on  
16 this little screen, so I just want to double check with  
17 staff.

18 Great.

19 Okay. So I thank everybody for bearing with me  
20 as I learn this technology and catch up with it all. And  
21 with that, I will adjourn this session and we will  
22 reconvene it looks like closed session -- let's see in 10  
23 minutes?

24 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

25 We usually do it pretty quick.

1           VICE CHAIRPERSON MILLER: Right now. Just go  
2 right in. Okay.

3           (Laughter.)

4           VICE CHAIRPERSON MILLER: As soon as the room is  
5 cleared I guess. Okay. Cool.

6           (Thereupon the California Public Employees'  
7 Retirement System, Board of Administration,  
8 Risk & Audit Committee open session  
9 meeting adjourned at 12:26 p.m.)

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

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 23rd day of June, 2019.

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