November 21, 2019

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

Ladies and Gentlemen:

We have audited the financial statements of the fiduciary activities and proprietary activities of the California Public Employees' Retirement System (CalPERS), a component unit of the State of California, as of and for the year ended June 30, 2019. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements whether due to error or fraud.

- The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.

- Our responsibility for other information in documents containing audited financial statements of CalPERS does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by CalPERS and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.

- All records and information requested by BDO were freely available for our inspection.

- Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of CalPERS personnel throughout the course of our work.

Results of Our Audit

Accounting Practices, Policies, Estimates

The following summarizes the more significant required communications related to our audit concerning CalPERS accounting practices, policies, and estimates:

CalPERS significant accounting practices and policies are those included in Note 2 to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note 2 to the financial statements.

A summary of recently issued accounting pronouncements is included in Note 16 to the financial statements. CalPERS did not adopt any significant new accounting pronouncements during the year ended June 30, 2019.

There were no other changes in significant accounting policies and practices during the year ended June 30, 2019.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. CalPERS' significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in notes of the financial statements.

Significant estimates include:

- *Private Equity and Real Asset Investments* - Management's estimate of these investments at net asset value is based on inputs from investment managers, appraisals, and/or benchmark analysis to estimate the change in value from the investments' last audited financial statement date to CalPERS' fiscal year end.

- *Health Care Fund Estimated Insurance Claims Due* - Management's estimate of incurred but not reported (IBNR) insurance claims is based on an actuarial analysis utilizing inputs such as current claims data and historical patterns.

- *Long Term Care Fund Liabilities for Future Policy Benefits* - Management's estimate of the liability for future policy benefits is based on an actuarial analysis utilizing inputs such as discount rate as well as rates of morbidity, mortality, and policy lapse.

- *Pension Liabilities* - Management's estimate of the total pension liability disclosed for its single-employer and multiple-employer cost sharing defined pension plans are prepared by CalPERS actuaries and based on certain actuarial assumptions including discount rate, rates of termination and mortality, and healthcare cost trends.

As part of our audit procedures, we evaluated the propriety of the inputs, assumptions, and methodologies used to develop the estimates, including consideration of the competency and objectivity of management's experts as well as the risk of possible management bias. We determined the estimates are reasonable in relation to the financial statements.

Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in the year ended June 30, 2019.

Corrected and Uncorrected Misstatements

There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.

In connection with our audit of CalPERS' financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in CalPERS' books and records as of and for the year ended June 30, 2019. We have reported such misstatements to management on a Summary of Uncorrected Audit Misstatements and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Attached is a copy of the summary that has been provided to, and discussed with, management.

Quality of CalPERS' Financial Reporting

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

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing and in a timely manner, to those charged with governance all material weaknesses and significant deficiencies that have been identified in CalPERS internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Deficiency in Internal Control - A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

Significant Deficiency - A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Material Weakness - A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of CalPERS' financial statements, we noted no material weaknesses.

Other Required Communications

Significant changes to planned audit strategy or significant risks initially identified

There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications. Significant risks are assessed risks of material misstatement that, in the auditor's professional judgment, requires special audit consideration.

The significant risks associated with the audit are related to the following financial statement areas:

- Private Equity and Real Asset Investments
- Health Care Fund Estimated Insurance Claims Due
- Long Term Care Fund Liabilities for Future Policy Benefits

Obtain information from those charged with governance relevant to the audit

There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding CalPERS' financial reporting that we were made aware of as a result of our inquiry of those charged with governance.

Nature and extent of specialized skills or knowledge needed related to significant risks

The nature and extent of specialized skills or knowledge needed to perform the planned audit procedures or evaluate audit results related to significant risks are outlined below:

Real Asset Investments – We utilized valuation specialists to assist in auditing the valuations related to Real Asset Investments including the valuation methodology used and the key assumptions included.

Health Care Fund Estimated Insurance Claims Due – We utilized actuarial specialists to assist in auditing the actuarial analysis that support the associated liabilities recorded including the review of the methodology and assumptions included.

Long Term Care Fund Liabilities for Future Policy Benefits - We utilized actuarial specialists to assist in auditing the actuarial analysis that support the associated liabilities recorded including the review of the methodology and assumptions included.

Consultations with other accountants

We are not aware of any consultations about significant accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent accountants on the application of generally accepted accounting principles.

Our evaluation of any CalPERS relationships and transactions with related parties and their impact on the financial statements

We have evaluated CalPERS' process to identify, authorize and approve, account for, and disclose its relationships and transactions with related parties and noted no significant issues.

Disagreements with management

There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to CalPERS' financial statements or to our auditor's report.

Significant difficulties encountered during the audit

There were no significant difficulties encountered during the audit.

Other matters significant to the oversight of CalPERS financial reporting process, including complaints or concerns regarding accounting or auditing matters

There are no other matters that we consider significant to the oversight of CalPERS' financial reporting process that have not been previously communicated.

Representations requested from management

Please refer to the management representation letter for the audit from management.

Independence Confirmation

Our Agreement Number 2018-8640 dated June 7, 2019 includes our Engagement Letter to you and describes our responsibilities in accordance with professional standards and certain regulatory authorities and *Government Auditing Standards* with regard to independence and the performance of our services. This letter also stipulates the responsibilities of CalPERS with respect to independence as agreed to by CalPERS. Please refer to that letter for further information.

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

Very truly yours,

(Signed BDO USA, LLP)

California Public Employees' Retirement System
Summary of Uncorrected Audit Misstatements
June 30, 2019
Amounts in '000's

Fiduciary Funds				
Item #	**Financial Statement Account Description**	**Debit**	**(Credit)**	**(Increase) Decrease In Net Position**
1	Investments (Real Assets)	$582,940		
	Unrealized gain on investments (Real Assets)		($582,940)	($582,940)
	Adjust the unrecorded April to June 2019 net income/loss of Real Assets investments pursuant to CalPERS' valuation policy			
Current year cumulative uncorrected misstatements				($582,940)
Cumulative effect of prior period uncorrected misstatements brought forward from last period				$1,263,717
Cumulative current year uncorrected misstatements adjusted for prior period impact				$680,777

Proprietary Funds
There were no uncorrected misstatements as it relates to the proprietary funds other than the cumulative effect of prior period uncorrected misstatements brought forward from prior year which decreases the current year income statement by approximately $4,461.