

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

ROBERT F. CARLSON AUDITORIUM
LINCOLN PLAZA NORTH
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SACRAMENTO, CALIFORNIA

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

COMMITTEE MEMBERS:

Mr. David Miller, Chairperson

Ms. Lisa Middleton, Vice Chairperson

Ms. Margaret Brown

Ms. Fiona Ma, represented by Mr. Frank Ruffino

Mr. Jason Perez

Ms. Shawnda Westly

Ms. Betty Yee, represented by Lynn Paquin

BOARD MEMBERS:

Ms. Eraina Ortega, represented by Ms. Michelle Mitchell

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. Pam Hopper, Committee Secretary

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P R O C E E D I N G S

CHAIRPERSON MILLER: So I'll call the Risk and Audit Committee to order. Ms. Hopper, please call the roll.

COMMITTEE SECRETARY HOPPER: David Miller?

CHAIRPERSON MILLER: Here.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Here.

COMMITTEE SECRETARY HOPPER: Frank Ruffino for Fiona Ma?

COMMITTEE MEMBER MA: Present.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

VICE CHAIRPERSON MIDDLETON: Present.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

VICE CHAIRPERSON MIDDLETON: Present.

COMMITTEE SECRETARY HOPPER: Thank you.

Jason Perez?

COMMITTEE MEMBER PEREZ: Yes.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Present.

COMMITTEE SECRETARY HOPPER: Lynn Paquin for Betty Yee?

ACTING COMMITTEE MEMBER PAQUIN: Present.

COMMITTEE SECRETARY HOPPER: Than you.

CHAIRPERSON MILLER: Okay. Good to see everybody

1 here. And we'll move on to Item 2, approval of the April
2 21st, 2020, Risk and Audit Committee Timed Agenda.

3 COMMITTEE MEMBER BROWN: Move approval, Ms.
4 Brown.

5 CHAIRPERSON MILLER: Moved by Ms. Brown.
6 Do I have a second?

7 VICE CHAIRPERSON MIDDLETON: Second

8 CHAIRPERSON MILLER: Seconded by Ms. Middleton.
9 Okay. Any discussion?

10 Seeing none. I'll call for the question.

11 Ms. Hopper, if you would.

12 COMMITTEE SECRETARY HOPPER: Margaret Brown?

13 COMMITTEE MEMBER BROWN: Aye.

14 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
15 Fiona Ma?

16 ACTING COMMITTEE MEMBER RUFFINO: Aye.

17 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

18 VICE CHAIRPERSON MIDDLETON: Aye.

19 COMMITTEE SECRETARY HOPPER: Jason Perez?

20 COMMITTEE MEMBER PEREZ: Aye.

21 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

22 COMMITTEE MEMBER WESTLY: Aye.

23 COMMITTEE SECRETARY HOPPER: Lynn Paquin For
24 Betty Yee?

25 ACTING COMMITTEE MEMBER PAQUIN: Aye.

1 COMMITTEE SECRETARY HOPPER: Thank you.

2 CHAIRPERSON MILLER: Okay. Moving on to the
3 executive report, I'll call on Marlene Timberlake D'Adamo.

4 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

5 Thank you. Apologies. There is apparently some
6 background noise in my office. I think it's the
7 air-conditioner/heater overhead. So from time to time
8 they're going to mute me and it might just take a second
9 for them to take me off mute, so that we don't mess up any
10 of your audio.

11 So good afternoon, Mr. Chair, Madam Vice Chair,
12 and members of the Committee and Board. Marlene
13 Timberlake D'Adamo, CalPERS' team member.

14 It has only been two months since we've been
15 together, but the world has changed quite dramatically
16 since then. Seeing as though this is the Risk and Audit
17 Committee, I would be remiss not to acknowledge the
18 circumstances that we are living through and the
19 challenges and risks we currently face.

20 I would like to take the opportunity, like many
21 of my colleagues have done, to acknowledge the tremendous
22 work and effort by CalPERS' team members to make sure that
23 our business continues unabated and that our team members
24 and members are safe.

25 Today, we are bringing two action items to this

1 Committee. Both are the -- or each is the compliance
2 plan, the annual plan, and the annual risk and audit
3 plan -- or, I'm sorry, the annual enterprise risk
4 management plan. These plans are for fiscal year
5 2020-2021 and they are action items.

6 In addition, I would like to take the opportunity
7 to update this Committee on two -- or our two summary of
8 committee direction items that were discussed at both
9 the -- or at each of the February and November Risk and
10 Audit Committee meetings.

11 So at this point, I'll stop and see if there's
12 any questions on anything other than the summary of
13 committee direction and then I'll go into those two.

14 CHAIRPERSON MILLER: Okay. No, I'm not seeing
15 any requests.

16 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

17 Okay. So the first item was the audit threshold
18 materiality. And if you remember at the November 2019
19 Committee meeting when the independent auditors were here,
20 there was a discussion around the best practices for
21 determining audit materiality and threshold. And, at that
22 time, as part of the discussion, it was suggested that the
23 Committee Chair and Vice Chair go back and meet with the
24 independent auditors to discuss what they consider
25 materiality, and how they -- how they determine

1 materiality as part of the audit.

2 This has been done. This was done in March. And
3 I am happy to report that I believe that the Vice Chair
4 and Chair - they can, of course, speak for themselves -
5 are satisfied with the discussion that had ensued. And
6 maybe, at this point, I'll just stop and see if anyone had
7 any questions.

8 CHAIRPERSON MILLER: I'm not seeing any
9 questions. And I'm not seeing anyone waving, so we will
10 move along then.

11 Thank you.

12 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

13 Okay. Great. The next item was an item that was
14 discussed at the February Risk and Audit Committee, which
15 was the last time we were together. And this question was
16 raised by Ms. Brown. And it was around the QSR, the
17 quarterly status report, that the Office of Audit Services
18 provides. And at the time, the question really was around
19 if there was an ability to get more detail about those
20 reports. And the discussion, at that time, was quite
21 brief.

22 And so what I wanted to do, since, at this point,
23 the QSR is actually not scheduled to come before this
24 Committee until June. So we wanted to take the
25 opportunity to maybe have a little bit more of a

1 discussion, maybe a clarification around the question,
2 given that the Audit Resolution Policy was not discussed
3 at that time. And so what is the Audit Resolution Policy?
4 The Audit Resolution Policy is a Board policy. It's been
5 in effect since 1994, last revised in 2016. And what it
6 does is it basically dictates the roles and
7 responsibilities of the Chief Auditor, management, and the
8 reporting that goes to the Risk and Audit Committee.

9 And so really what I wanted to point out with
10 respect to the audit resolution policy is that the policy
11 requires the Chief Auditor to notify management of audit
12 items that are outstanding for more than six months. And
13 the policy itself requires that open internal audit
14 findings are closed within 12 months. And if there is a
15 open audit internal finding, that is open beyond 12
16 months, it would be the Chief Auditor that would bring
17 that information back to this Committee to review.

18 And so I just wanted to make sure that the
19 Committee understood that this was out there and that this
20 is a policy that's being utilized. At the time, in
21 February, there were no open audit items that are -- were
22 outstanding for more than 12 months. And at this time,
23 there are no open audit findings that are open for more
24 than 12 months.

25 So the question is, is given the information

1 about the existence of the Audit Policy and how it
2 operates, is this -- is the detail still necessary or
3 needed with respect to the quarterly status report that is
4 being provided by the Office of Audit Services?

5 CHAIRPERSON MILLER: Yeah. This is a couple
6 questions here. It looks like. And I just also wanted to
7 kind of chime in before I go to that. And we had a really
8 detailed discussion with staff and also with our auditors
9 about these issues and the whole process for prioritizing
10 things, addressing audit items, and bringing them back and
11 reporting. And then the cycle to get things back in front
12 of us if it's not resolved within the 12 months is really
13 the focus of this question.

14 It seems to be well explained. Almost anything
15 we can think of that would come up is addressed as part of
16 what the audit team does. So I was pretty satisfied that
17 that kind of reporting was working well for us.

18 (Inaudible.) That was -- inaudible.

19 I've got a request from Ms. Brown.

20 COMMITTEE MEMBER BROWN: Thank you, Mr. Chair.
21 This was -- this was and continues to be my issue for
22 providing oversight by this Committee. The concern I have
23 is a lot of the -- I don't even know how much this
24 Committee or the full Board, as a matter of that fact, is
25 looking at the specific audit findings. You actually

1 would have to go into Diligent, go into other items, go
2 into -- you have to go a bunch of places just to find the
3 audit reports, and then to find the audit findings.

4 What happens, Ms. Timberlake D'Adamo, as you
5 know, those QSRs are just little bar charts. It's just
6 little chart. And it just says six outstanding findings,
7 less than a year, five outstanding findings more than 12
8 months or whatever it says. That's it. That's all we
9 get.

10 And I don't think that's adequate oversight,
11 because I don't know which findings have not been
12 resolved. I have no way of knowing from the little bar
13 chart. And so I was thinking, and this is what I think I
14 expressed to Ms. Chappuie, that it would be nice to have
15 like a little table that just said it's the finding from
16 this report, it's still outstanding, and we expect it to
17 be resolved. You can say you expect it to be resolved
18 within a year or not resolved.

19 The problem is there's all these outstanding
20 findings out there that we have no idea which ones have
21 not been resolved and that's my concern.

22 And there have been some more than a year that I
23 don't recall the Chief Auditor, or whoever, is supposed to
24 bring it back to us. And I have to -- I'll have to go
25 back and check the records, if you'd like me to. But we

1 can just look at those QSRs and we'll see that they're not
2 necessarily bought back to us. And not just the internal
3 audits, which would need to remain confidential because
4 those are confidential, but also the ones with our outside
5 agencies where you have quite a few hanging out.

6 I don't think it would be that difficult to put
7 together a little table of those outstanding findings,
8 almost like Ms. Chappuie did when I asked for additional
9 information on -- I can't remember the audits
10 specifically, but there was 15 agencies that had other
11 issues outside of what the audit report was for. But I
12 would have to have read 167 pages -- or 176 pages to find
13 out what the 15 agencies were that had other issues that
14 weren't part of that audit report.

15 So again, I just think it would be helpful to
16 have a little table that we could go through, so we would
17 know what are the findings that are outstanding and when
18 do we expect them to be resolved. Otherwise, I don't
19 think it's real oversight.

20 Thank you.

21 CHAIRPERSON MILLER: Okay. I don't see any other
22 questions. And one of the things I would add as well is
23 that if we have been having issues with outstanding items
24 not being resolved timely and not being reported back to
25 us, I think we would certainly be aware of that. I

1 certainly am not aware of that being a problem
2 historically and I'm not aware of anything that would
3 cause me to think that we had a problem with these not
4 being prioritized, and worked on, and addressed by our
5 team in an efficient and effective manner that would cause
6 me to be concerned. So if there is anything that would
7 cause that kind of concern, I'd certainly like to know
8 about it, if you, Ms. Brown, or anyone else, has any
9 specific examples.

10 Otherwise, I'm kind of reluctant to create
11 additional reporting and -- rather than just let the team
12 continue to address them, prioritize them, and deal with
13 them and report back to us if there's something that does
14 get resolved within the time frame that cause the
15 reporting back.

16 COMMITTEE MEMBER BROWN: Without the -- without
17 the chart, how would you know, if there wasn't anything
18 substantial outstanding? You wouldn't.

19 CHAIRPERSON MILLER: You would know when it
20 didn't get completed at the end.

21 COMMITTEE MEMBER BROWN: How -- and how would you
22 know? They give you a little bar graph. It doesn't tell
23 you what it is. It's a little blue -- it's a little blue
24 chart, a little orange thing. It doesn't tell you what it
25 is.

1 CHIEF EXECUTIVE OFFICER FROST: Marlene, could
2 you explain the process or have Beliz come into the call
3 to explain this process, so we can get that onto the
4 record?

5 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
6 Is Beliz on?

7 CONFERENCE MODERATOR: Yes. Beliz, go ahead and
8 try your video and your audio, please.

9 CHIEF AUDITOR CHAPPUIE: Yes, I'm here.
10 So the process of how we resolve the audit
11 findings or how we validate, is that the question, just to
12 clarify?

13 CHIEF EXECUTIVE OFFICER FROST: Ms. Chappuie,
14 it's how would the Board know if management had committed
15 to resolving and audit item, which of course we do, but
16 how -- what's the process by which the Board would be
17 notified if management did not complete what they said
18 they would do.

19 CHIEF AUDITOR CHAPPUIE: Through the quarterly
20 status reports we would be providing that information.
21 And Audit Resolution Policy, as Marlene stated, says that
22 the findings will be resolved within the 12 months. And
23 we monitor those throughout the year. Once the report
24 goes final, the clock starts ticking for 12 months. And
25 most -- the divisions and the audit liaisons are aware of

1 the timelines, and when they provide us the response, the
2 corrective action, which becomes part of the final report,
3 they tell us what actions they're going to take to resolve
4 the finding and the estimated timeline for that.

5 And when they complete those findings, they
6 provide us the documentation to the audit services. And
7 auditors validate the information they provide. Sometimes
8 we do do follow up required for additional information for
9 us to validate the information they provided. And then we
10 resolve it, we validate it, and we close the findings.

11 And those -- the status that -- the bar charts
12 that you're seeing, the numbers are pretty much
13 corresponding to those. And like Marlene said, there's no
14 internal audit findings that are older than a year. Does
15 that -- does that answer the question?

16 CHAIRPERSON MILLER: Yeah. I think so. I've got
17 a question from Ms. Middleton.

18 VICE CHAIRPERSON MIDDLETON: Actually, Ms. Frost
19 asked the question that I was going to ask. But this
20 would be a follow-up question for Ms. Timberlake, Ms.
21 Chappuie. Are you satisfied, and what actions have you
22 been taking, to ensure that the most serious of issues
23 that you are identified are being addressed in a prompt
24 manner?

25 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

1 So, Beliz, if you want to start and then I'll add
2 to it.

3 CHIEF AUDITOR CHAPPUIE: Sure. So the process
4 also throughout the 12-month period, we do report --
5 Office of Audit Services reports the status of the open
6 findings once they hit the six-month mark accord -- in
7 accordance with our Audit Resolution Policy. And we bring
8 this detailed information to the executive team's
9 attention during the IARC meetings which is our Integrated
10 Assurance Risk Management Council. All the executive team
11 members are there. They -- it pretty much brings it to
12 their attention to say, dear executives, there's this
13 finding of your Division. It has hit the six-month mark.
14 Heads up. We're approaching -- we're in the second half
15 of the 12-month year. Please provide some attention, and
16 direction, and guidance to your team members to resolve
17 it.

18 So it does gets their attention. And that's one
19 of the control functions we have to communicate to them on
20 the continuous -- on a timely basis. And they -- that's
21 one of the reasons that those findings get resolved on a
22 timely basis. In addition to that, Ms. Frost also has
23 implemented some more strict controls in addition to
24 beyond our Audit Resolution Policy, where now, she's
25 requiring the executive team to ensure the divisions

1 resolve the findings, especially the ones that are severe.

2 Now, we have the rating factor also implemented
3 in the audit report. So those findings with severe
4 ratings are required to be resolved within 90 days, which
5 is shorter than the 12-month period.

6 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

7 And actually Beliz said what I was going to say
8 about the severity levels. That being a new process
9 that's been implemented where audit findings are required
10 to be closed within 90 days. And through the Integrated
11 Assurance Risk Council, which is our risk meeting, we
12 monitor those findings and that report comes to that
13 committee on a monthly basis.

14 VICE CHAIRPERSON MIDDLETON: Thank you.

15 CHAIRPERSON MILLER: Back to Ms. Brown.

16 You're muted.

17 COMMITTEE MEMBER BROWN: I got it. I'm looking
18 at I think the last QSR, was that from November? Is that
19 the last one we got?

20 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

21 February.

22 CHAIRPERSON MILLER: February. Oh, I don't know
23 what date this is.

24 COMMITTEE MEMBER BROWN: So this -- the one I'm
25 looking at has two outstanding items more than a year old.

1 Those are on the financial statements. I hope everyone is
2 reading the financial statements. Let me see what
3 that's -- and so I don't know -- I don't know what those
4 items are, unless I asked you specifically what they were.
5 And those -- those are my concerns. Or maybe if you just
6 list severe ones -- the severe -- there are like low,
7 medium -- what are the -- what are the new terms we're
8 using for them, in terms of --

9 CHIEF AUDITOR CHAPPUIE: The severity levels?

10 COMMITTEE MEMBER BROWN: Yeah, tell me what that
11 is.

12 CHIEF AUDITOR CHAPPUIE: The severity ratings.
13 Yes, we rate them, high, medium, low (inaudible) the
14 findings.

15 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

16 So, Beliz, can I just ask you to add one thing.
17 Ms. Brown said that the financial statement audits that
18 they weren't in the February, but they are in a separate
19 attachment, correct, as part of the QSR?

20 CHIEF AUDITOR CHAPPUIE: That's correct. There's
21 details (inaudible) I don't have in front of me, but
22 you're right, the details are there.

23 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So,
24 Ms. Brown, the QSR contains internal audits as a separate
25 attachment, the public agency -- or it's -- I'm sorry, it

1 has information about the internal audits, public agency
2 audits, and the financial statement audits. But there is
3 a separate attachment. I don't know if it was two or
4 three, that was actually provided as part of the February
5 agenda item that had the details of the financial
6 statement audits.

7 So what I was speaking to earlier was the
8 internal -- you know, the -- I'll call them the internal
9 regular audits that is done by Beliz's group.

10 COMMITTEE MEMBER BROWN: All right. So I'm
11 looking at -- so I found it for the February numbers, you
12 gave us as of December 31, which spurred this whole
13 conversation where the Committee agreed that we would have
14 you do this. So I'm looking at the employer compliance.
15 And there are a hundred and -- excuse me, there are 52
16 outstanding items, more than one to two years old -- one
17 to two years old. I have no idea what those outstanding
18 items are. Those are certainly public information. And
19 the only way for me to find out would be to ask you for
20 every single one. So I'd be happy to do that at every
21 sing Board meeting, if that's the way we want to work or
22 let's just get a table.

23 CHIEF EXECUTIVE OFFICER FROST: So -- yeah, so --
24 this is Marcie. I think, Marlene, you know, taking Ms.
25 Brown's comments around the sections beyond the year-time

1 frame, it would -- sorry, that would make sense to give
2 more detail, because then that is -- those are the audit
3 items that are outside of the policy range. So what kind
4 detail could be provided to the Committee?

5 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

6 So the question is what kind of Committee --
7 detail could be provided to the Committee for audit items
8 outstanding more than one year.

9 CHIEF EXECUTIVE OFFICER FROST: Correct.

10 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: So,
11 I mean, for -- I guess this is probably more pointed
12 towards Beliz. But the question is, you know, can we --
13 for the public agency items -- and, Beliz, please correct
14 me if you think I'm wrong, but for the public agency
15 items, I think it probably would be doable, because they
16 are public agency and they're out there. It would be a
17 function of Beliz and her team providing a report or
18 pulling that information together, maybe even changing
19 their QSR in some fashion to include that information.
20 And then for the -- for the internal, which is I think
21 more of the question, it would be what would that look
22 like, given that the internal audits are confidential?

23 And so it might be where we would -- if there
24 were -- I would say if there were audit items that were
25 outstanding more than a year, which would be in violation

1 of the Audit Resolution Policy, that that information
2 could be brought into a session that, you know, where that
3 could be discussed, I'm thinking.

4 COMMITTEE MEMBER BROWN: I think that's a great
5 idea. And I believe I tried to say at the last Board
6 meeting where this was discussed that I understood that if
7 it was internal, it would be need to be done in closed
8 session. But you must have a way of tracking the items
9 over one year old. You must have the table, because you
10 showed me that there's 52.

11 So it would be -- I don't want the big report. I
12 just -- you know, I'm sure you've just got a little line
13 item that you could grab and to give to us. I just want
14 to know what are the outstanding items, and that we can
15 take a look at. And I'm also concerned about the severe
16 ones.

17 I did talk to Ms. Frost last Wednesday about a
18 risk and audit item and we agreed that it was low, but it
19 still had to -- had concerns for me. But it -- the risk
20 was low, so -- and I think that's helpful if you have
21 those criteria on there. It's helpful, so I don't freak
22 out when I see a bunch findings and you tell me they're
23 low. So that it is helpful, but I'm concerned about
24 severe, less than year, and then I'm concerned about
25 anything over a year. Thank you.

1 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

2 Okay.

3 CHAIRPERSON MILLER: Okay. Let's see, I've got
4 another question, Margaret or is that -- is that it for
5 you?

6 Okay. I'm not seeing questions. So I think
7 looking forward, we could look at what we could provide in
8 terms of any report additional detail on things that are
9 beyond the policy requirements, in terms of a detailed
10 report, whether we do that in closed. You can get back to
11 us with a suggestion for an approach to that.

12 (Inaudible) information from the Chair.

13 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

14 I'm sorry. I didn't hear the last part. You
15 were breaking up a little bit.

16 CHAIRPERSON MILLER: Oh. So -- yeah, so if you
17 could come back with an approach to that or (inaudible)
18 any of those in a more detail fashion, that would
19 be (inaudible)

20 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

21 Sure. Thank you. And just I appreciate us
22 having this conversation, because as I stated, the last
23 time this was discussed, it was a bit quick. And I really
24 wanted to make sure that we looked at what we're asking
25 for against the backdrop of the Audit Resolution Policy,

1 and that everyone understood sort of what we were doing.
2 So I do appreciate this conversation.

3 Thank you.

4 CHAIRPERSON MILLER: And I think doing that on
5 the exception basis when things are outside of policy and
6 not creating a new layer of additional more frequent
7 reporting is the way to go.

8 So good conversation.

9 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

10 Thank you.

11 CHAIRPERSON MILLER: Okay. Let's see where we
12 are here. Yeah, I think -- does that wrap it up for that
13 item?

14 COMMITTEE SECRETARY HOPPER: Yes. We're on Item
15 4a, action consent items.

16 CHAIRPERSON MILLER: So I haven't seen any
17 requests to pull anything from the action consent item
18 number four, so that includes approval of the Risk and
19 Audit Committee meeting minutes and the External Audit
20 Services Request for Proposal.

21 So I would entertain a motion.

22 COMMITTEE MEMBER BROWN: (Raised hand.)

23 CHAIRPERSON MILLER: Moved by Ms. Brown.

24 Seconded by?

25 VICE CHAIRPERSON MIDDLETON: Second?

1 CHAIRPERSON MILLER: Seconded by Ms. Middleton.

2 COMMITTEE MEMBER BROWN: Could we have a
3 discussion?

4 CHAIRPERSON MILLER: Sure. I'll call on you, Ms.
5 Brown.

6 COMMITTEE MEMBER BROWN: Thank you. I just have
7 a question about the RFP for external audit services
8 forming a subcommittee in order to do that interview and
9 recommend finalists. I would like to be considered for
10 that subcommittee. Thank you.

11 CHAIRPERSON MILLER: Thank you. And if there are
12 no other discussion, I will call for the question. I will
13 note that Mr. Perez had to step away for a call, so he
14 will not be voting on this. But otherwise, I'll call for
15 the question.

16 COMMITTEE SECRETARY HOPPER: Okay, Mr. Chair.
17 Margaret Brown?

18 COMMITTEE MEMBER BROWN: Aye.

19 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
20 Fiona Ma?

21 ACTING COMMITTEE MEMBER RUFFINO: Aye.

22 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

23 VICE CHAIRPERSON MIDDLETON: Aye.

24 COMMITTEE SECRETARY HOPPER: Jason Perez?

25 COMMITTEE MEMBER PEREZ: Aye.

1 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

2 COMMITTEE MEMBER WESTLY: Aye.

3 COMMITTEE SECRETARY HOPPER: Lynn Paquin for
4 Betty Yee?

5 ACTING COMMITTEE MEMBER PAQUIN: Aye.

6 And, Mr. Chair, just to confirm. It was Margaret
7 Brown who moved and Lisa Middleton who seconded?

8 CHAIRPERSON MILLER: That's correct. And I was
9 glad to see Mr. Perez made it back in time to vote.

10 COMMITTEE SECRETARY HOPPER: Thank you.

11 CHAIRPERSON MILLER: Okay. Moving on to Item 5,
12 the information consent items. Again, I haven't seen any
13 request to pull any of those items. And I don't see
14 anyone waving frantically to get my attention.

15 So I would entertain a motion to move them.

16 VICE CHAIRPERSON MIDDLETON: So moved.

17 GENERAL COUNSEL JACOBS: There's no motion
18 required on this.

19 CHAIRPERSON MILLER: Oh, it's information okay.
20 Yeah, sorry about that.

21 Okay. Moving on to Item 6, action agenda items.
22 6a Enterprise Compliance Plan, Ms. D'Adamo.

23 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

24 Yes. Hi. Good afternoon again. This item is
25 our annual plan. For those of you who have been on the

1 Committee for some time, this should be familiar, because
2 this is the way that Enterprise Compliance has its
3 opportunity to bring to you our plans for the upcoming
4 fiscal year. This s an action plan as Mr. Miller state --
5 stated.

6 We bring this document to you in a format that we
7 hope is easier on the eyes. In years past, it was
8 presented as a rather large document and we have taken the
9 direction to really try to simplify the document and make
10 the information a bit more concise.

11 The -- it is a bit different from our previous
12 presentations, in that we've integrated our strategic plan
13 deliverables and are into our annual plan. And that's why
14 you see references to the strategic objectives and the
15 measures as part of the plan.

16 And actually, I don't see the document up, but if
17 we can share it, we could -- that would be good. So what
18 I'll also then talk about --

19 (Thereupon an overhead presentation was
20 presented as follows.)

21 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

22 Thank you -- is for the benefit of those members
23 who are relatively new to the Committee and/or the Board,
24 I'll provide a brief synopsis of the five-year plan, which
25 is coming to a close in June. So in June, as in two

1 months from now, we will have completed our five-year
2 plan.

3 In 2015, Enterprise Compliance brought a
4 five-year plan to this Committee with the intention of
5 developing and maturing the overall Compliance Program.
6 This was primarily brought to you over the years as a
7 stair step -- a stair step slide that you would see with a
8 lot of detail around the items that the Compliance Team
9 would be working on as Board-approved items.

10 The -- in the first two years of this plan, we've
11 sort of tracked it against the elements of an effective
12 Compliance Program, which was a bit subjective. And then
13 the last three years we've moved to benchmarking the
14 maturity of our plan, which is why you would see the
15 reference in our strategic measure to a two plus or a
16 three plus in terms of the benchmark maturity.

17 What we did in this past year is we maintained a
18 score of three. And our goal is to have a three plus by
19 fiscal year 21-22. And that is one of our initiatives for
20 our strategic plan.

21 In previous plans, our program has focused on
22 governance, policies and delegations, ethics, training,
23 operational processes, mandatory training, reporting,
24 compliance risk assessments, compliance operations, and
25 communications and education.

1 This year we intend to build upon and to continue
2 to develop our functions with a strong focus on addressing
3 and mitigating risks. And our plan we will be focusing on
4 identifying and managing compliance of third-party risks.
5 We'll also be focusing on measuring the effectiveness of
6 compliance training.

7 And so this document is the plan. And what I'd
8 like to speak to, if you could just scroll down just a
9 little bit - it's a one-page document - is -- and our
10 objective -- our first objective is we're focusing on
11 three areas within the broad measure of conflicts of
12 interest. Those areas are Form 700 operations, statement
13 of incompatible activities, and a conflicts of interest
14 code.

15 For objective number two, this is our third-party
16 risk item. If you scroll down a little bit, it would be
17 visible. Here, third-party risk continues to be a high
18 concern for organizations. While partners, in many
19 respects, third parties, also bring risks in the form of
20 reputational, operational and, security, to just name a
21 few. The initiatives that we have identified and are
22 working on help us to identify and manage third-party
23 risks within our vendor universe.

24 And then the last objective, objective three, is
25 around compliance training effectiveness. Training is an

1 extremely important element of a Compliance Program.
2 Measuring the effectiveness of compliance training is the
3 way that we measure the continued and long-standing impact
4 of training on the behaviors of our team members.

5 And so this is a synopsis of our plan. And I
6 would be happy to take any questions, if there are any at
7 this time.

8 CHAIRPERSON MILLER: I'm not seeing any new
9 questions requests, so I'll --

10 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

11 Okay. Well, thank you. And then -- oh, well,
12 that's your job to move to the next item.

13 CHAIRPERSON MILLER: Okay.

14 COMMITTEE SECRETARY HOPPER: Mr. Chair, we need
15 to take a roll call vote. This is an action item, Mr.
16 Chair.

17 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO: Oh,
18 I'm sorry.

19 CHAIRPERSON MILLER: So I will need a motion to
20 approve.

21 VICE CHAIRPERSON MIDDLETON: So moved.

22 CHAIRPERSON MILLER: Moved by Ms. Middleton.
23 Seconded by?

24 ACTING COMMITTEE MEMBER RUFFINO: Frank.

25 CHAIRPERSON MILLER: Frank Ruffino.

1 Okay. And so I'll call for the question. Ms.
2 Hopper, if you would take the roll call.

3 COMMITTEE SECRETARY HOPPER: Margaret Brown?

4 COMMITTEE MEMBER BROWN: I think I'm going to
5 abstain. I'm not sure what we're really voting on. I
6 don't know how I lost that.

7 COMMITTEE SECRETARY HOPPER: Okay. Margaret
8 Brown abstain.

9 Frank Ruffino for Fiona Ma?

10 ACTING COMMITTEE MEMBER RUFFINO: Aye.

11 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

12 VICE CHAIRPERSON MIDDLETON: Aye.

13 COMMITTEE SECRETARY HOPPER: Jason Perez?

14 COMMITTEE MEMBER PEREZ: Aye.

15 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

16 COMMITTEE MEMBER WESTLY: Aye.

17 COMMITTEE SECRETARY HOPPER: Lynn Paquin for
18 Betty Yee?

19 ACTING COMMITTEE MEMBER PAQUIN: Aye.

20 CHAIRPERSON MILLER: And, Mr. Chair, I have Lisa
21 Middleton moved, and Frank Ruffino for Fiona Ma as a
22 second.

23 CHAIRPERSON MILLER: That's correct.

24 COMMITTEE MEMBER BROWN: I'll -- can I change my
25 vote to an aye? I just went back and read the item.

1 Thank you.

2 COMMITTEE SECRETARY HOPPER: So again, Margaret
3 Brown changes her vote from abstain to aye.

4 CHAIRPERSON MILLER: That is correct.

5 COMMITTEE MEMBER BROWN: Yes. Thank you.

6 CHAIRPERSON MILLER: Okay. The ayes have it, so
7 we will move on to action Agenda Item 6b, the Enterprise
8 Risk Management Plan. And I call on Mr. Forrest Grimes
9 for this.

10 (Thereupon an overhead presentation was
11 presented as follows.)

12 CHIEF RISK OFFICER GRIMES: Good afternoon, Mr.
13 Chair and Committee members, members of the Board.
14 Forrest Grimes, CalPERS team.

15 In item 6b, I will present the fiscal year 20-21
16 Enterprise Risk Management Plan for the Committee's review
17 and approval. The plan is comprised of the following
18 workstreams, and I'd like to start on page 36 of your
19 Board books, which is the next page.

20 Next slide, please.

21 --o0o--

22 CHIEF RISK OFFICER GRIMES: So the first
23 workstream is to facilitate the Asset Liability Management
24 Advisory Committee to help the Board make decisions
25 throughout the ALM cycle with the Chief Risk Officer

1 accounting as Chair. And that happens to be me, so I'm
2 the Chair of that Committee. The members include the CEO;
3 the CFO, who has the over -- who oversees financial
4 soundness of the system, and really facilitates all of the
5 program areas in that cause; the Chief Actuary and
6 Actuarial Office; the CIO and the Investment Office; the
7 Communications and Stakeholder Relations Deputy Executive
8 Officer and leadership; and the Legal Office as an
9 advisor. And that really is what -- how the Committee is
10 made up.

11 If we could go to page seven, next slide, please.

12 --o0o--

13 CHIEF RISK OFFICER GRIMES: I see a question, Mr.
14 Chair.

15 CHAIRPERSON MILLER: Yes. We have a question
16 from Ms. Brown about the Committee.

17 COMMITTEE MEMBER BROWN: Yes. Thank you, Mr.
18 Chair. So Forrest my question is, you know, we talk about
19 this -- do we call it the ALMAC, is that what you call it?

20 CHIEF RISK OFFICER GRIMES: We do. We call it
21 the ALMAC.

22 COMMITTEE MEMBER BROWN: Great. So I know we
23 have a lot of these internal committees that I know, like
24 the Investment team does. They have the RAIC and the --
25 but we typically, on the Board, don't know what those

1 committees are and who they consist of. I think it would
2 be helpful for us to know, because I didn't know about the
3 ALMAC until you're telling me. So it might be helpful to
4 know about all the internal committees we have and who
5 sits on those.

6 CHIEF RISK OFFICER GRIMES: Of course, this is up
7 to leadership. Most of these higher level committees do
8 have a charter and you get reported out on the activities
9 of these committees, in this particular case, many times
10 throughout the ALM cycle, both in the Investment Office,
11 the Investment Committee setting, as well as the Finance
12 and Admin Committee setting. So there's many activities
13 that are workstreams within these committees, much like
14 the committees that you have formed for Governance within
15 the -- within the Board. And basically, staff is really
16 doing a lot of work behind the scenes so that you can, in
17 essence, be presented with informed information, and then
18 you can, in turn, make decisions and instruct us how you
19 would like to proceed.

20 So these are really functional working group kind
21 of committees. I think that it's kind of -- from my
22 perspective, it would be kind of in the weeds for -- you
23 know, to have any Board participation and --

24 COMMITTEE MEMBER BROWN: Oh, no. I just want to
25 know who is on these committee, how many there are and

1 who's on them. I don't want to participate for heaven's
2 sake.

3 CHIEF RISK OFFICER GRIMES: Certainly. I can --
4 you know, it's up to again the executive team, but there
5 are charters for these committees, which layout the
6 membership, and activities, and responsibilities.

7 COMMITTEE MEMBER BROWN: Sure. I just don't
8 think it's in some of the standard org charts we get when
9 we get orientation. It might be helpful to know what
10 committees there are. And we find out about them as we
11 stumble across decisions by staff. So it would be helpful
12 to know what are these subcommittees and who sits on them.

13 Thank you.

14 CHIEF RISK OFFICER GRIMES: Okay. We'll
15 certainly get back to you on that point, and your point is
16 well taken thank you.

17 CHAIRPERSON MILLER: Back to you, Mr. Grimes.

18 CHIEF RISK OFFICER GRIMES: Okay. We'll go to
19 the next page, page thirty -- we're on -- we're on the
20 right page. I'm sorry.

21 So this is where we're going to identify, assess,
22 and monitor risk. And this year, we want to mature the
23 risk management program by embedding emerging risks into
24 the framework, which is really one of the last things that
25 we have to do in terms of creating a very nice risk

1 management framework. You will be seeing that in the June
2 Committee meeting. We're working on it now. We will
3 complete the 2020 risk assessment and present results to
4 the Risk and Audit Committee in November as we
5 traditionally have done. And we're going to more fully
6 integrate risk management into strategic planning working
7 in collaboration with the Enterprise Strategy and
8 Performance Division, that team. So I think that will be
9 a nice maturity process as well.

10 If we could please turn to page 38, Board Books,
11 which is the next page.

12 --o0o--

13 CHIEF RISK OFFICER GRIMES: We will enhance the
14 internal control framework. And here, we're going to be
15 mapping program level cross-functional processes, taking a
16 consultative approach as needed. We will advance
17 operational risk reporting by developing a joint reporting
18 platform with the information security and the enterprise
19 compliance teams. And we will enhance risk functions by
20 continuing to use the intranet, training, and the annual
21 survey to cultivate a risk-intelligent organization.

22 We will additionally enhance enterprise data
23 governance by leaving enterprise data management business
24 plan initiatives. Those are cross-functional. That's a
25 cross-functional group as well. And we will complete the

1 State Leadership Accountability Act Reporting
2 implementation plans that are due in June and December
3 respectively.

4 And if we could go to page 39, please, next page.

5 --o0o--

6 CHIEF RISK OFFICER GRIMES: Finally, we will be
7 evaluating the CalPERS' insurance portfolio to verify
8 adequate coverage exists for current risk transfer
9 strategies. The full plan is presented on pages 40
10 through 42 of your Board Books in much more detail than
11 this presentation.

12 So with that, Mr. Chair, I'm going to stop, turn
13 it back to you, and see if there are any questions.

14 Mr. Chair, I think you're on mute at this point.

15 CHAIRPERSON MILLER: Did that do it?

16 CHIEF RISK OFFICER GRIMES: That sure did.

17 CHAIRPERSON MILLER: Okay. So I'm not seeing any
18 additional requests to speak. And so we'll go forward.
19 This is an action item, and so I would entertain a motion
20 to approve the plan as presented here.

21 COMMITTEE MEMBER BROWN: Move approval.

22 CHAIRPERSON MILLER: Moved by -- I can't see --

23 COMMITTEE MEMBER BROWN: Brown.

24 CHAIRPERSON MILLER: Oh, Ms. Brown. Okay. And a
25 second?

1 COMMITTEE MEMBER PEREZ: Second.

2 ACTING COMMITTEE MEMBER PAQUIN: I'll second.

3 CHAIRPERSON MILLER: Seconded by Mr. Perez.

4 COMMITTEE MEMBER PEREZ: Sorry, Lynn.

5 ACTING COMMITTEE MEMBER PAQUIN: Oh, that's okay.

6 CHAIRPERSON MILLER: He's quick.

7 Okay. So hearing no further discussion, I will
8 call for the question. Ms. Hopper, could you take the
9 tally?

10 COMMITTEE SECRETARY HOPPER: Margaret Brown?

11 COMMITTEE MEMBER BROWN: Aye.

12 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
13 Fiona Ma?

14 ACTING COMMITTEE MEMBER RUFFINO: Aye.

15 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

16 VICE CHAIRPERSON MIDDLETON: Aye.

17 COMMITTEE SECRETARY HOPPER: Jason Perez?

18 COMMITTEE MEMBER PEREZ: Aye.

19 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

20 COMMITTEE MEMBER WESTLY: Aye.

21 COMMITTEE SECRETARY HOPPER: Lynn Paquin for
22 Betty Yee?

23 ACTING COMMITTEE MEMBER PAQUIN: Aye.

24 COMMITTEE SECRETARY HOPPER: Mr. Chair, I have
25 Margaret Brown moving the item and Jason Perez seconding

1 it.

2 CHAIRPERSON MILLER: Okay. The ayes have it.
3 The motion passes.

4 We'll move on to 7a, Summary of Committee
5 Direction. Back to you, Ms. D'Adamo.

6 Oh, you could still be muted there.

7 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:
8 There we go.

9 CHAIRPERSON MILLER: Sometimes, it takes more
10 than one click, I see.

11 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

12 Yes, I was hoping someone could read my lips. So
13 for summary of committee direction, I have post the
14 discussion that we had on the QSR an exception report for
15 additional detail to provide information for the audit --
16 open audit findings that are beyond the policy procedures.
17 And I have that, you know, I think we'll work with Ms.
18 Brown to make sure that we get the information that she's
19 looking for with respect to that topic.

20 CHAIRPERSON MILLER: Yeah. I think also we're
21 going to have some further information about Committee
22 makeup and structure.

23 CHAIRPERSON MILLER: I didn't get to that yet,
24 but okay.

25 CHAIRPERSON MILLER: Okay. Sorry.

1 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

2 The -- what I had written down and I'm looking at
3 is Committee direction would be information on what are
4 the committees and who sits on them.

5 CHAIRPERSON MILLER: That's any -- I don't think
6 your missing anything there, so -- okay. So I don't have
7 any indication of public comment. And I don't see anyone
8 asking to speak.

9 MS. HOPPER: No public comment, Mr. Chair.

10 CHAIRPERSON MILLER: Okay. So without objection,
11 I would call this adjourned and we will move into closed
12 session, let's see in say 10 minutes, so 4:26.

13 (Thereupon the California Public Employees'
14 Retirement System, Board of Administration,
15 Risk & Audit Committee open session
16 meeting adjourned at 4:16 p.m.)

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

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

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

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

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

16 IN WITNESS WHEREOF, I have hereunto set my hand
17 this 29th day of April, 2020.

18
19
20 

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