

**DRAFT**

Report to the Risk and Audit Committee  
**CALIFORNIA PUBLIC  
EMPLOYEES'  
RETIREMENT SYSTEM**

Audit Wrap Up  
Year Ended June 30, 2020

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The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Administration and the Risk & Audit Committee) and, if appropriate, management of the System and is not intended and should not be used by anyone other than these specified parties.

# Status and Results of the Audit

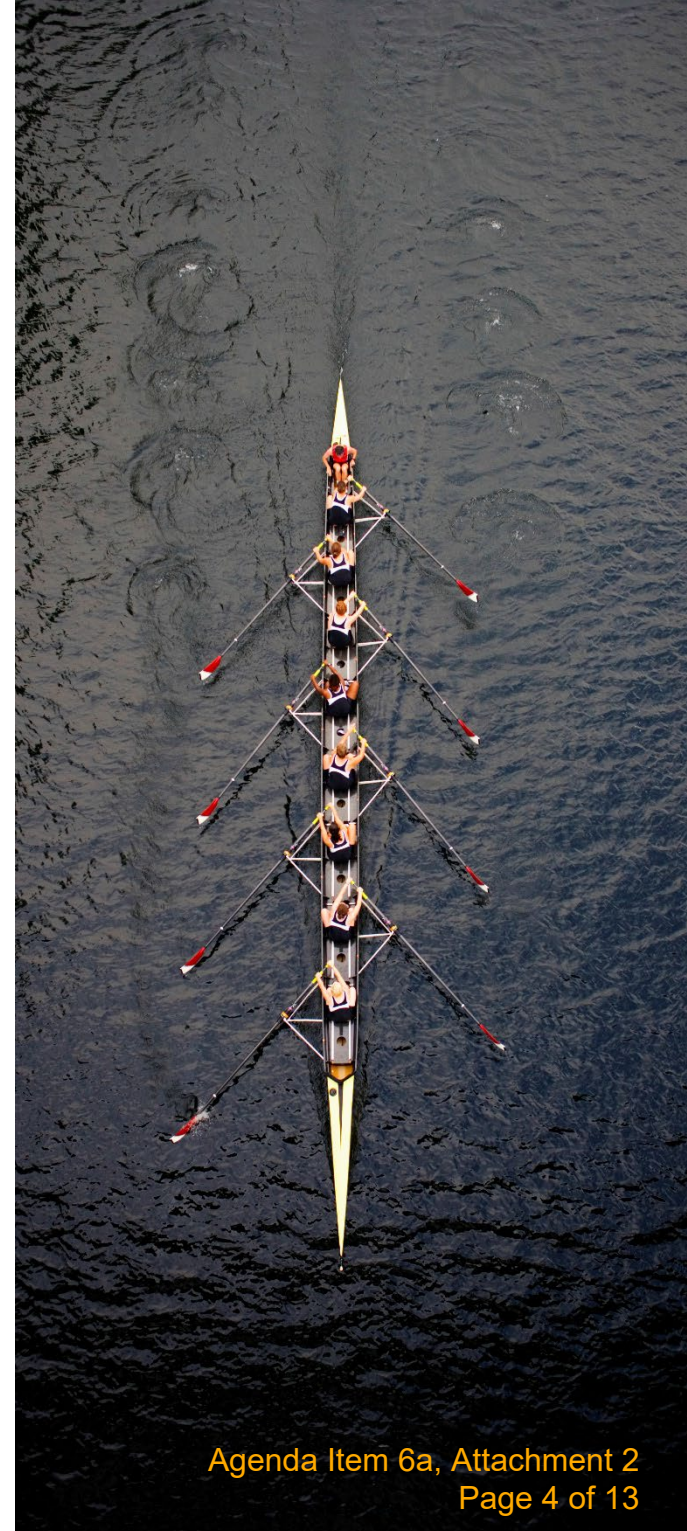
## Status of the Audit

### STATUS

We have audited the financial statements of the fiduciary activities and proprietary activities of California Public Employees' Retirement System (CalPERS), a component unit of the State of California, as of and for the year ended June 30, 2020. 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.
- ▶ We expect to issue an unmodified opinion on the financial statements and release our report on November 20, 2020.
- ▶ Our responsibility for other information in documents containing CalPERS' audited financial statements (e.g. management's discussion and analysis, required supplementary info, schedules of pension and OPEB amounts) 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, is 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 were freely available for our inspection, which was primarily performed remotely due to COVID-19.
- ▶ 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.



# Contents of CAFR and Audit Scope

Section	Discussion Point	Assurance Provided?
<b>Introductory Section</b>	This section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance.	No
<b>Management’s Discussion &amp; Analysis (MD&amp;A)</b>	This is required supplementary information and BDO has performed limited procedures over this information including reviewing for consistency with the audited financial statements. We do not express an opinion or provide any assurance on the information.	No
<b>Basic Financial Statements</b>	Obtain audit evidence and perform procedures to provide a basis for our audit opinions.	Yes
<b>Required Supplementary Information</b>	This is required supplementary information and BDO has performed limited procedures over this information including reviewing for consistency with the audited financial statements. We do not express an opinion or provide any assurance on the information.	No
<b>Other Supplementary Information</b>	This section has been subjected to the auditing procedures in relation to the audit of the basic financial statements and certain additional procedures were performed, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements.	Yes
<b>Investment Section</b>	This section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance.	No
<b>Actuarial Section</b>	This section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance.	No
<b>Statistical Section</b>	This section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance.	No

# Results of the Audit

## SIGNIFICANT ACCOUNTING PRACTICES AND POLICIES

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 in the financial statements.

- ▶ A summary of recently issued accounting pronouncements is included in Note 17 to CalPERS' financial statements. CalPERS did not adopt any significant new accounting pronouncements during the year ended June 30, 2020.
- ▶ There were no changes in significant accounting policies and practices during the year ended June 30, 2020.

## SIGNIFICANT ACCOUNTING ESTIMATES

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 the 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.

During the year, the discount rate assumption used in the estimated liability for future policy benefits of the Long-Term Care Fund was lowered from 5.25 percent to 4.00 percent. This had a significant impact on increasing the estimated liability for such benefits as of June 30, 2020 compared to the previous year.

Other than what is mentioned immediately above, management did not make any other significant changes to the processes or significant assumptions used to develop the significant accounting estimates in the year ended June 30, 2020.

# Results of the Audit (continued)

## UNCORRECTED MISSTATEMENTS

There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

## CORRECTED MISSTATEMENTS

In connection with our audit of CalPERS' financial statements, we have discussed with management certain financial statement misstatements that have been proposed and corrected in CalPERS' books and records as of and for the year ended June 30, 2020. We have reported such corrected misstatements to management on a Summary of Corrected Audit Misstatements. Below is a summary that has been provided to, and discussed with, management, with regards to corrected misstatements.

## QUALITY OF CALPERS' FINANCIAL REPORTING

We have discussed with the Risk and Audit Committee and management our judgements 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.

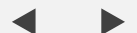
<b>CORRECTED MISSTATEMENTS (IN THOUSANDS)</b>				
<b>Item #</b>	<b>Financial Statement Account Description</b>	<b>Debit</b>	<b>(Credit)</b>	<b>(Increase) Decrease in Net Position</b>
1 (Fiduciary Funds)	Short Term Securities	\$2,130,802		\$-
	Global Debt Securities		(\$2,130,802)	\$-
Reclass from Global Debt Securities to Short Term Securities for securities that are short-term in nature.				
2 (Fiduciary Funds)	Employer Contribution	\$904,000		\$-
	Non-Employer Contributing Entity		(\$904,000)	\$-
Reclass for non-employer contributions made for PERF B.				

In addition, there was an out of period adjustment of \$582,940 thousand to unrealized gain on investments for real assets in the fiduciary funds recorded in the current year statement of revenues, expenses and changes in net position that was related to the uncorrected fair value of real assets investments misstatement from the prior year's audit.

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# Internal Control Over Financial Reporting

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In planning and performing our audit of CalPERS’ financial statements, we considered CalPERS’ internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of CalPERS’ internal control. 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 are noted below:

Category	Definition
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 a 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 a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of CalPERS’ 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.

# Additional Required Communications

Requirement	Discussion Point
<b>Significant changes to planned audit strategy or significant risks initially identified</b>	<p>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.</p> <p>The significant risks associated with the audit are related to the following financial statement areas:</p> <ul style="list-style-type: none"> <li>- Private Equity &amp; Real Asset Investments (Fiduciary)</li> <li>- Health Care Fund Estimated Insurance Claims Due</li> <li>- Long Term Care Fund Liabilities for Future Policy Benefits</li> <li>- Health Care Fund and Long-Term Care Fund Related Premiums</li> <li>- Contingency Reserve Fund Administrative Fees Earned</li> </ul>
<b>Obtain information from those charged with governance relevant to the audit</b>	<p>There were no matters noted relevant to the audit, including, but not limited to: 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.</p> <p>Other than former Chief Investment Officer conflict of interest matter being investigated by the California’s Fair Political Practices Commission, there are no violations or possible violations of laws or regulations that were noted and relevant to the audit.</p>
<b>Nature and extent of specialized skills or knowledge needed related to significant risks</b>	<p>The nature and extend of specialized skills or knowledge needed to perform the planned audit procedures or evaluate audit results related to significant risks are outlined below:</p> <ul style="list-style-type: none"> <li>- Real Asset Investments - We utilized BDO valuation specialists to assist in auditing the valuations related to Real Asset Investments including the valuation methodology used and the key assumptions included.</li> <li>- Health Care Fund Estimated Insurance Claims Due - We utilized BDO actuarial specialists to assist in auditing the actuarial analysis that support the associated liabilities recorded including the review of the methodology and assumptions included.</li> <li>- Long Term Care Fund Liabilities for Future Policy Benefits - We utilized BDO actuarial specialists to assist in auditing the actuarial analysis that support the associated liabilities recorded including the review of the methodology and assumptions included.</li> </ul>
<b>Consultations with other accountants</b>	<p>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.</p>
<b>Our evaluation of any CalPERS relationships and transactions with related parties and their impact on the financial statements</b>	<p>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.</p>

Requirement	Discussion Point
<b>Disagreements with management</b>	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.
<b>Significant difficulties encountered during the audit</b>	There were no significant difficulties encountered during the audit.
<b>Other matters significant to the oversight of CalPERS' financial reporting process, including complaints or concerns regarding accounting or auditing matters</b>	There are no other matters that we consider significant to the oversight of CalPERS' financial reporting process that have not been previously communicated.
<b>Representations requested from management</b>	Please refer to the management representation letter.
<b>Other Matters</b>	Due to the on-going impact of the novel coronavirus (COVID-19) and the recently enacted Coronavirus Aid, Relief, and Economic Security Act (CARES Act), we want to highlight that management has included impact of such disclosure within the notes of the financial statements. This is supported by analysis performed by management that we do not take exception to.
<b>Independence Communication</b>	Our Agreement Number 2018-8640 dated June 7, 2019 and Amendment #2 dated February 20, 2020, includes our Engagement Letter to you and describes our responsibilities in accordance with professional standards and certain regulatory authorities and <i>Government Auditing Standards</i> 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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