

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

WEBEX PLATFORM

TUESDAY, NOVEMBER 17, 2020
4:00 P.M.

JAMES F. PETERS, CSR
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APPEARANCES

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 Ms. Lynn Paquin

BOARD MEMBERS:

Mr. Henry Jones, President
Mr. Rob Feckner
Ms. Stacie Olivares
Ms. Eraina Ortega
Mr. Ramon Rubalcava

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. Fritzie, Archuleta, Deputy Chief Actuary
Ms. Beliz Chappuie, Chief Auditor
Mr. Forrest Grimes, Chief Risk Officer

APPEARANCES CONTINUED

STAFF:

Ms. Pam Hopper, Committee Secretary

Ms. Michele Nix, Controller

ALSO PRESENT:

Mr. David Driscoll, Buck Global

Mr. Steve Franklin, BDO

Mr. Billy Kim, BDO

Ms. Sylvia Mak, BDO

Ms. Dipika Nagin, BDO

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PROCEEDINGS

1
2 CHAIRPERSON MILLER: I'll welcome you all back
3 and we'll convene the session of the Risk and Audit
4 Committee. And the first order of business is to go ahead
5 and call the roll. And, Ms. Hopper, if you will.

6 COMMITTEE SECRETARY HOPPER: David Miller?

7 CHAIRPERSON MILLER: Here.

8 COMMITTEE SECRETARY HOPPER: Margaret Brown?

9 COMMITTEE MEMBER BROWN: Here.

10 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
11 Fiona Ma?

12 ACTING COMMITTEE MEMBER RUFFINO: Present.

13 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

14 VICE CHAIRPERSON MIDDLETON: Present.

15 COMMITTEE SECRETARY HOPPER: Jason Perez?

16 COMMITTEE MEMBER PEREZ: Present.

17 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

18 COMMITTEE MEMBER WESTLY: Present.

19 COMMITTEE SECRETARY HOPPER: Lynn Paquin for
20 Betty Yee?

21 ACTING COMMITTEE MEMBER PAQUIN: Here.

22 COMMITTEE SECRETARY HOPPER: Mr. Chair, all is in
23 attendance.

24 COMMITTEE MEMBER BROWN: Yea.

25 CHAIRPERSON MILLER: Good. Thank you, Ms.

1 Hopper.

2 Let's go to Item 2, approval of the November
3 17th, 2020 Risk and Audit Committee timed agenda.

4 What's the pleasure of the Committee?

5 COMMITTEE MEMBER BROWN: Move approval.

6 COMMITTEE MEMBER WESTLY: Second.

7 BOARD MEMBER MILLER: Moved by Ms. Brown. Second
8 by --

9 COMMITTEE MEMBER WESTLY: Second by Shawnda.

10 CHAIRPERSON MILLER: Okay. Ms. Westly.

11 Okay. I'm not seeing any call for discussion.

12 So I'll call the question. Ms. Hopper, please
13 call the roll?

14 COMMITTEE SECRETARY HOPPER: Margaret Brown?

15 COMMITTEE MEMBER BROWN: Aye.

16 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
17 Fiona Ma?

18 ACTING COMMITTEE MEMBER RUFFINO: Aye.

19 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

20 VICE CHAIRPERSON MIDDLETON: Aye.

21 COMMITTEE SECRETARY HOPPER: Jason Perez?

22 COMMITTEE MEMBER PEREZ: Aye.

23 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

24 COMMITTEE MEMBER WESTLY: Aye.

25 COMMITTEE SECRETARY HOPPER: Lynn Paquin for

1 Betty Yee?

2 ACTING COMMITTEE MEMBER PAQUIN: Aye.

3 COMMITTEE SECRETARY HOPPER: Mr. Chair. I have
4 Margaret Brown making the motion, Shawnda Westly second it
5 for approval of Item 2.

6 CHAIRPERSON MILLER: The ayes have it. The item
7 is approved. So we'll move on to Item 3, the executive
8 report. And I will call on Marlene Timberlake D'Adamo.

9 Welcome.

10 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

11 Thank you. Good afternoon, Mr. Chair, Madam Vice
12 Chair, Committee members and Board members. Marlene
13 Timberlake D'Adamo, CalPERS team member. It is really
14 great to see you all today. And thanks for hanging in for
15 Risk and Audit Committee meeting.

16 Before I describe the agenda items, I would like
17 to take the opportunity to provide two updates regarding
18 enterprise compliance activities since we last met. In
19 our ongoing effort to address and manage personal trading,
20 we held a series of mandatory training personal trading
21 expectations through the month of October. And I'm happy
22 to report that all covered persons participated in this
23 training.

24 Second, beginning with today's reporting, the
25 enterprise compliance activity reports now include more

1 detail regarding closed substantiated ethics complaints.

2 So that's my two updates that I wanted to provide
3 you.

4 Today's RAC agenda is a mix of information and
5 action items comprising the topics of actuarial
6 valuations, risk framework and independent audits. Your
7 action items are first, the independent auditor's report
8 for fiscal year 2019-20 and there they will the present
9 their draft report and accompanying required reports for
10 your approval.

11 The review of independent auditor's management
12 letters includes comments and recommendations related to
13 strengthening internal controls over financial reporting
14 based on the audit of the June 30, 2019 financial
15 statements. Management's concurrence, response and
16 proposed corrective actions are included in the management
17 letter. This item also requires approval from the
18 Committee.

19 On May 5th 2020, CalPERS released RFP number
20 2020-8853 to initiate a competitive selection process to
21 engage the services of a qualified audit firm to perform
22 audits of CalPERS financial statements for fiscal years
23 20-21 through 24-25. CalPERS received five response
24 proposals.

25 The independent financial statement auditor

1 selection agenda item presents the highest scoring
2 finalist for the independent financial statement auditor.
3 Upon your approval, CalPERS will enter contract
4 negotiations with the approved finalist.

5 Next is the RFP for parallel valuation and
6 certification services. We are requesting approval to
7 seek an external firm through a competitive bidding
8 process to provide parallel actuarial valuation and
9 certification services to the Board of Administration.

10 Information items consist of the following:

11 Discussion of the completion of Buck Global, our
12 third-party actuarial firm; independent review of the
13 actuarial valuation of the JRS, JRS II, LRS and the 1959
14 SPB -- SBP as of June 30, 2019; and the enterprise risk
15 management framework review agenda item will update you on
16 the current status of CalPERS enterprise risks.

17 The next Risk and Audit Committee meeting is
18 scheduled for February 2021 and includes the election of
19 the Risk and Audit Committee Chair and Vice Chair, the
20 review of the Risk and Audit Committee delegation, and the
21 mid-year plan updates for Enterprise Compliance and
22 Enterprise Risk. Thank you, Mr. Chair. This concludes my
23 report and I would be happy to take any questions.

24 CHAIRPERSON MILLER: Okay. Thank you, Ms.
25 D'Adamo.

1 I'm not seeing any requests for comment or
2 questions.

3 So we'll move to Item 5, information consent
4 items. I don't have any requests to pull anything. I'm
5 just making sure I didn't miss anything.

6 And so, we'll move to Action Agenda Items. So
7 6 -- starting with 6a.

8 COMMITTEE SECRETARY HOPPER: Mr. Chair.

9 CHAIRPERSON MILLER: Yes, Ms. Hopper.

10 COMMITTEE SECRETARY HOPPER: We need to take a
11 roll call to approve the minutes.

12 CHAIRPERSON MILLER: Oh. Okay. I missed that
13 one.

14 COMMITTEE MEMBER BROWN: I'll move approval of
15 the minutes.

16 CHAIRPERSON MILLER: Okay. Moved by Mrs. Brown.
17 Seconded by?

18 COMMITTEE MEMBER PEREZ: (Raised hand.)

19 CHAIRPERSON MILLER: Mr. Perez.

20 So let's -- I'll call for the question. Call the
21 roll, Ms. Hopper.

22 COMMITTEE SECRETARY HOPPER: Margaret Brown?

23 COMMITTEE MEMBER BROWN: Aye.

24 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
25 Fiona Ma?

1 ACTING COMMITTEE MEMBER RUFFINO: Aye.

2 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

3 VICE CHAIRPERSON MIDDLETON: Aye.

4 COMMITTEE SECRETARY HOPPER: Jason Perez?

5 COMMITTEE MEMBER PEREZ: Aye.

6 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

7 COMMITTEE MEMBER WESTLY: Aye.

8 COMMITTEE SECRETARY HOPPER: Lynn Paquin for
9 Betty Yee?

10 ACTING COMMITTEE MEMBER PAQUIN: Aye.

11 COMMITTEE SECRETARY HOPPER: Mr. Chair, we have a
12 motion made by Margaret Brown, Jason Perez seconded it for
13 the approval of Item 4a, the approval of the minutes.

14 CHAIRPERSON MILLER: Thank you.

15 Thanks for catching that. Sorry, I missed that
16 folks.

17 And so once more Item 5 is information consent
18 items. I don't see anything requested to pull, so we'll
19 move to Item 6, action agenda items. And 6a is the
20 independent auditor's report. So I'll call on Beliz
21 Chappuie, I believe, is that correct, Marlene?

22 CHIEF AUDITOR CHAPPUIE: Correct.

23 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

24 Yes.

25 CHIEF AUDITOR CHAPPUIE: Good afternoon, Mr.

1 Chair and members of the Committee. Beliz Chappuie,
2 Office of Audit Services.

3 Agenda Item 6a is an action item. Staff is
4 requesting the Risk and Audit Committee to approve the
5 Board's independent financial statement auditor BDO's
6 audit report for the fiscal year-ended June 20 -- June 30,
7 2020.

8 I would like to turn it over to BDO staff who are
9 here presenting with me today.

10 Billy, take it away.

11 Thank you.

12 (Thereupon a slide presentation.)

13 MR. KIM: Thank you. Can you hear me?

14 CHIEF AUDITOR CHAPPUIE: Yes.

15 MR. KIM: All right.

16 CHAIRPERSON MILLER: Yes, sir. Go ahead.

17 MR. KIM: Hello, Chairman -- Vice Chair, members
18 of the committee.

19 Thank you for the time for us to present the
20 results of the audit to you. With me here today are key
21 leaders of my time and they'll assist me in presenting the
22 results of the audit.

23 Our full team involved in the audit, as well as
24 audit work over the GASB schedules we will issue compose
25 of over 60 plus people, including specialists, actuarial,

1 IT, and valuation specialists. And collectively we spend
2 a significant amount of time to complete the work that
3 we've been engaged for.

4 The scope of our audit for the CalPERS CAFR was
5 over the basic financial statements, for the year ended
6 June 30th, 2020. The basic financial statements cover the
7 fiduciary funds as well as each of the proprietary funds.
8 We have three deliverables that we provided for your
9 review. Two of them are audit opinions and the other is
10 our audit wrap-up report, which includes a summary of our
11 audit work, which is currently on the screen. But before
12 we dive into the summary report, let me give you a summary
13 of attachment 1 and 3.

14 So attachment 1 is the independent auditor's
15 opinion. The opinion includes discussion on management's
16 responsibility over the preparation of the financial
17 statements. And the auditor's responsibility is providing
18 as to whether the financial statements are free of
19 material misstatements from a reasonable assurance
20 standpoint. Our audit opinion that we are expecting to
21 issue is an modified opinion, which means that it is a
22 clean report.

23 Attachment 3 is the other opinion, and it's
24 required under governmental auditing standards. It covers
25 internal controls over financial reporting and on

1 compliance. There are no material weaknesses or
2 significant deficiencies that we've identified during the
3 audit. Also, from a compliance perspective, the report
4 concludes that we did not identify any matters of
5 non-compliance that could have a direct or material effect
6 on the financial statements.

7 Now, going back to the audit wrap-up report on
8 the screen, which is attachment 2. With the assistance of
9 my colleague Steve Franklin, which is -- who's our
10 investments audit partner and Dipika Nagin our lead senior
11 manager. We'll walk through the report and highlight key
12 matters associated with the results of the audit.

13 So if we can get both of them elevated at this
14 time, that would be great.

15 Thank you.

16 Can we move to slide 4.

17 --o0o--

18 MR. KIM: All right. So on this slide, I covered
19 most of the points listed here as part my discussion of a
20 attachment 1 and 2, but some of the other items to
21 highlight here is that all records and information
22 requested were available for our inspection. And most of
23 the audit work was performed remotely this year due to
24 COVID-19.

25 With leveraging our experience from the prior

1 year and with successful coordination with management, we
2 were able to complete our audit work without issue. There
3 were certain things confidential in nature we had to
4 review on-site, but that was limited, while most of our
5 requests were provided electronically

6 Next slide, please.

7 --o0o--

8 MR. KIM: This slide was put together for the
9 Committee to be clear and transparent as to what is
10 described in our opinion on what assurance we are
11 providing and to what work we have performed over each of
12 the sections of the CAFR.

13 So with any financial statement audit, we perform
14 our audit and provide assurance over the basic financial
15 statements, which includes the notes to those financial
16 statements.

17 For the other supplementary information section,
18 we also performed audit procedures in relation to the
19 audit of the financial statements. The other
20 supplementary information section includes a breakdown of
21 certain expense categories that are further breakdowns of
22 what is included in the face, including administrative
23 expenses, investment expenses, and so on.

24 There are two sections that are also required
25 with -- that are required unde governmental reporting

1 standards to be included with the basic financial
2 statements, but are not required to be audited. And those
3 sections are called the management's discussion and
4 analysis section, or the MD&A, and also the required
5 supplementary information section.

6 And so BDO has performed limited procedures over
7 the numbers included in these required sections by
8 reviewing them for consistency with numbers included in
9 the audited financial statements and all audit support
10 providing during the audit.

11 For the other sections included, although they
12 are unaudited, we read those sections as part of the
13 review of the CAFR crafts and any questions and comments
14 were provided to management.

15 Next slide, please.

16 --o0o--

17 MR. KIM: As it relates to the significant
18 accounting policies and practices -- practices and
19 policies, there are no changes that we noted during the
20 year. Also, there are no adoption of any significant new
21 accounting standards.

22 Now, one of the areas of the audit we do focus on
23 is in the area of significant estimates, which I will go
24 through three of -- three of them, which are actually
25 driven estimates. So first off, for the health care fund,

1 the estimated claims liability is a liability that uses an
2 actuarial methodology based on historical claims data.
3 And this is for each of the medical plans that are offered
4 by CalPERS to its members.

5 Second is the estimated liability for future
6 policy benefits to be paid for beneficiaries related to
7 the Long-Term Care Fund. The LTC, or the long-term care,
8 liability is derived from a roll-forward method and
9 includes assumptions from the latest valuation report.
10 Now, one significant change to highlight, which has also
11 been mentioned in some of the other committee meetings is
12 compared to the prior, there was a key change in the
13 discount rate assumption for long-term care liability from
14 5.25 percent to four percent.

15 Third is the area of pension liabilities, which
16 are disclosed in footnote 7, for cost sharing plans
17 including PERF B and PERF C, and single-defined benefit
18 plans. As part of our audit for each of these three
19 significant estimate areas, we perform procedures over
20 each of these liabilities, including through analytical
21 analysis, sample testing of procedures over accuracy and
22 completeness of data used. And we also independently
23 utilized actuaries to review management's actuarial
24 models, and methodology calculation, and the related
25 assumption. So based upon the work performed, we noted no

1 issues.

2 Now, our last significant estimate is related to
3 investments, where I'll have Steve Franklin share more
4 about that work.

5 Steve.

6 Steve, are you there?

7 MR. FRANKLIN: There we go.

8 MEETING MODERATOR: Sorry about that. That was
9 Steve Franklin.

10 MR. FRANKLIN: They've given me access now. Can
11 you hear now?

12 MR. KIM: Yes, go ahead.

13 CHAIRPERSON MILLER: Yes, sir. Go ahead.

14 MR. FRANKLIN: I have been elevated. Apologies.
15 Thank you.

16 Just getting my video there. There we go.

17 So, yes. Thank you, Billy.

18 So for the investments aspect, the significant
19 estimate that we identified related -- was related to
20 private equity and real asset investments, and
21 specifically around the difference in year-ends between
22 many of the investments which have audited financial
23 statements as of 12-31, and CalPERS year-end, which is
24 6-30.

25 Additionally, the other part of this estimate

1 related to the lag analysis in whereas, whereby CalPERS
 2 utilizes initially that the 3-31 value in order to book
 3 the estimates of the private equity and real asset
 4 investments, and then -- which is then updated based on
 5 various analysis to come up with the 6-30 figures using
 6 the 6-30 numbers from the underlying investments.

7 Similar to as Billy mentioned, we did significant
 8 testing around this -- these areas, including send
 9 confirmations to the investment managers, doing back
 10 testing, reliability testing, reviewing audited financial
 11 statements and unaudited capital statements from the
 12 underlying investment funds, in addition to other
 13 procedures.

14 Next slide, please.

15 --o0o--

16 MR. FRANKLIN: And with that, we're going to move
 17 on to the next part of the audit. So the results of the
 18 audit. I'm going to cover two of the corrected
 19 misstatements. There were no uncorrected misstatements
 20 during the year.

21 The first item that everyone will notice is
 22 related to a reclassification. So this had no impact on
 23 the actual net asset value of the funds. This was a
 24 reclassification from global debt securities to short-term
 25 securities. There were Some U.S. Treasury bills that had

1 been classified in the system under global debt when they
2 should have been classified under short-term securities.
3 So we -- we spoke with management about that and that
4 reclassification was made.

5 And towards the bottom I just wanted to highlight
6 quickly, there was an out-of-period adjustment that was
7 booked this year related to -- for 582 million related to
8 real assets valuation that happened last year. But
9 that -- that was addressed this year and no further
10 comment on that.

11 With that, I will hand it over to Dipika to cover
12 the employer contribution.

13 MS. NAGIN: Thank you, Steve. Can you all hear
14 me?

15 MR. FRANKLIN: Yes.

16 CHAIRPERSON MILLER: Yes. Go ahead.

17 MS. NAGIN: Perfect. Perfect.

18 There was on additional reclass entry in the
19 amount of \$904 million that had been classified as an
20 employer contribution, which should have been classified
21 as a non-employer contribution. CalPERS has appropriately
22 booked this audit adjustment.

23 We could move to slide nine.

24 --o0o--

25 MS. NAGIN: This slide discusses the varying

1 levels of deficiencies and the definition at each level.
2 We considered the internal controls over financial
3 reporting to help us design our audit procedures.
4 However, we do not express an opinion over the
5 effectiveness of the internal controls.

6 In the next agenda item, we will go into further
7 detail on our control observations. However, we would
8 like to highlight here that there were no material
9 weaknesses identified.

10 Slide 11, please.

11 --o0o--

12 MS. NAGIN: These next two slides include our
13 other required communications, which are -- which we are
14 required to communicate to you in accordance with our
15 audit standards. I will highlight certain key items on
16 these pages.

17 First, there were no significant changes in our
18 planned audit strategy or significant risks initially
19 identified. Second, other than the former CIO conflict of
20 interest matter, which is being investigated by the
21 California's Fair Political Practices Commission, there
22 were no violations or possible violations of laws or
23 regulations that were noted or relevant during the audit.

24 Next slide.

25 --o0o--

1 MS. NAGIN: Third, there were no disagreements
2 with management or significant difficulties encountered
3 during our audit.

4 Fourth, due to COVID-19 and the CARES Act,
5 management has assessed the impact to the financial
6 statements and disclosed in the notes of the financial
7 statements the impact to the volatility experienced in the
8 investment portfolio during the last half of the fiscal
9 year and how it is closely monitoring to assess for any
10 future possible adverse implications.

11 As part of our audit, we have reviewed
12 management's analysis over the impact of COVID-19 and did
13 not take exception to it.

14 And lastly, I wanted to remind you all that as
15 your auditors, we are independent of CalPERS and as
16 required under our audit standards.

17 Thank you.

18 MR. KIM: Yeah. So that concludes our
19 presentation for Agenda Item 6a and we are happy to take
20 any questions.

21 CHAIRPERSON MILLER: Thank you and thank you to
22 you Billy and your entire team. Working, you know, with
23 you the first time through was a pleasure. And it had its
24 challenges and you stepped up and met them along with the
25 whole team and CalPERS team. And then this year, ready

1 for smooth sailing and, you know, we've been through it
2 once and now we've got the pandemic. So new challenges,
3 new opportunities to do things differently. And we really
4 appreciate the fine work that you and your team and all
5 the CalPERS team that you worked with as well. From the
6 Risk and Audit Chair perspective, it was a pleasure.

7 So with that, I will go to questions.

8 MR. KIM: Thank you.

9 CHAIRPERSON MILLER: And the first question I
10 have is from, it looks like, President Jones.

11 PRESIDENT JONES: Thank you, Mr. Chair. Thank
12 you for the presentation. I just want to clarify what
13 I -- a piece of information I may have missed and heard,
14 if you will.

15 MR. KIM: Sure.

16 PRESIDENT JONES: And it was regarding the
17 comments on page six of 13, when you talked about the
18 estimates for private equity. I thought I heard you say
19 that the estimates were based on calendar year-end for the
20 balance of the year. So my quest -- if I heard that
21 correctly, then that's -- it seems to be inconsistent with
22 our current practice of the private equity lagging a
23 quarter behind, not a half year.

24 MR. KIM: Yes. Steve, do you we want to address
25 this question?

1 MR. FRANKLIN: Yeah. No. That would --
2 apologies for the confusion. No, that -- what I was just
3 saying is that many of the audited financial statements,
4 the year-end from the underlying funds are of 12-31.
5 That's not -- that's not the numbers that are being used.
6 That was just me saying that that's the fiscal year-end
7 for most of those -- for those underlying funds, which is
8 different than CalPERS, which is as of 6-30.

9 PRESIDENT JONES: Okay. Okay. Thank you very
10 much.

11 MR. FRANKLIN: Apologies for the confusion.

12 PRESIDENT JONES: Okay. Thank you.

13 CHAIRPERSON MILLER: Okay. My next questioner is
14 Director Middleton.

15 VICE CHAIRPERSON MIDDLETON: Thank you, Mr --
16 excuse me. Thank you, Mr. Vice chair -- or Mr. Chair.
17 Excuse me.

18 Billy, the -- I just want to reemphasize one very
19 basic point. You had access to all documents that were
20 requested?

21 MR. KIM: Yes, we had access to everything that
22 we had requested for, whether that was electronically or
23 in person.

24 VICE CHAIRPERSON MIDDLETON: All right. And was
25 there anyone that was not made available to you that you

1 requested availability?

2 MR. KIM: No, there was no such situation.

3 VICE CHAIRPERSON MIDDLETON: All right. And my
4 understanding is, from prior conversations with you, that
5 staff was cooperative at all times during the course of
6 this audit, is that correct?

7 MR. KIM: Yes, they were very cooperative and
8 accommodating. And a lot of credit should go to them as
9 well, especially during this COVID-19 time. And there are
10 certain things, including hard copies that we might have
11 received in the past that had to be scanned, right, so
12 that we can receive it electronically. So a lot of effort
13 on their part as well.

14 VICE CHAIRPERSON MIDDLETON: All right. Thank
15 you. And as you said, this is a clean audit and we're
16 certainly appreciative of seeing that, but we -- we
17 received the facts whatever they may be here.

18 I just want to say on my behalf, since I had the
19 opportunity to interact during the course of this year,
20 that I have nothing but compliments to you, to Sylvia and
21 to everyone on your team.

22 MR. KIM: Well, thank you. Appreciate that.

23 CHAIRPERSON MILLER: Okay. Thank you.

24 Next, I have Director Brown.

25 COMMITTEE MEMBER BROWN: Hi. Good evening

1 almost.

2 I wanted to go back to page 126 in the agenda.
3 That's attachment 2 and it's the corrected misstatements.
4 I -- I see the two corrected misstatements, but then you
5 talked about 904 million. So where is that in this report
6 and can you explain to me a little more about what that
7 was?

8 MR. KIM: Yeah. So the 904 million is -- was a
9 misstatement that was corrected. So that was something
10 that my team had proposed to management to be corrected,
11 because there was certain contributions that were recorded
12 in employer contribution as a specific financial statement
13 line item, when it should have been a separate line item
14 that should be designated as non-employer contributions.
15 And so that is something that we proposed and then
16 management had then reported. So that is reflected in the
17 CAFR, if you look at the basic financial statements and
18 the statement of revenues, expenses and changes in net
19 position.

20 COMMITTEE MEMBER BROWN: Okay. And so -- and so
21 it's not on page 126, because it doesn't belong there, is
22 that correct?

23 MR. KIM: Page 126 -- what is -- what page are
24 you referring --

25 COMMITTEE MEMBER BROWN: It's the correct -- it's

1 corrected misstatements. Oh, it is there. I'm sorry.
2 904. I'm sorry I look at that as 904,000. I apologize.
3 It's 904 million. Okay.

4 MR. KIM: Yes. Yes. Yes.

5 COMMITTEE MEMBER BROWN: Forgot. Sorry. I'm
6 thinking where is that number?

7 And so why did we -- so why did we think it was
8 an employer contribution when it was a non-employer
9 contribution? Who -- where did that come from?

10 MR. KIM: Yeah. No, I think management had just
11 put the amounts included in there, but, you know, this was
12 something that was unique special funds that had been
13 received from the State. And, you know, specifically, you
14 know -- yeah, this was just something -- it was an
15 isolated matter. And therefore, we had seen it as part of
16 our work and so we had called it out and management had
17 corrected it.

18 COMMITTEE MEMBER BROWN: Thank you. And my
19 apologies for not seeing it there. I have it circled.
20 I'm like where's my 904 million.

21 Thank you so much.

22 MR. KIM: No problem. No problem. Thank you.

23 CHAIRPERSON MILLER: Okay. Thank you.

24 I'm not seeing anymore requests to question or
25 comment, so I will --

1 COMMITTEE MEMBER BROWN: I'll move approval.

2 CHAIRPERSON MILLER: Okay Ms. Brown has moved
3 approval. Do we have a second? This is to approve the
4 item.

5 VICE CHAIRPERSON MIDDLETON: Second.

6 CHAIRPERSON MILLER: Second, was that Ms.
7 Middleton?

8 VICE CHAIRPERSON MIDDLETON: (Nods head.)

9 CHAIRPERSON MILLER: Okay. Director Middleton
10 seconds. So I'll call for the question. Ms. Hopper, if
11 you would call the roll.

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: Mr. Chair, I have
2 all ayes. Motion made by Margaret Brown, seconded by Lisa
3 Middleton for Agenda Item 6a, independent auditor's
4 report.

5 CHAIRPERSON MILLER: Thank you, Ms. Hopper. The
6 ayes have it. The motion is approved and independent
7 auditor's report has been approved.

8 So we'll move to 6b, action item agenda items,
9 review of independent auditor's management letter. And I
10 believe that is Ms. Chappuie.

11 CHIEF AUDITOR CHAPPUIE: Good afternoon, Mr.
12 Chair and members of the committee. Beliz Chappuie again.

13 Agenda Item 6b is also an action item. Staff is
14 requesting the Risk and Audit Committee to approve the
15 Board's independent financial statement auditor BDO's
16 management letter. I will like to turn back to -- back
17 over to Billy.

18 MR. KIM: Well, thank you.

19 MS. MAK: Thank you, Beliz.

20 MR. KIM: Yeah, go ahead, Sylvia. Sylvia will
21 present this section for us.

22 Go ahead Sylvia.

23 MS. MAK: Thank you, Beliz. Thank you, Mr.
24 Chair. I will go over our control findings as it relates
25 to the current year audit. As we mentioned in the prior

1 agenda item, we did identify two reclassifications. One
2 reclassification related to the government-issued treasury
3 bonds that had a short-term maturity which were recorded
4 as global debt securities instead of short-term
5 investments. And the other reclassification related to
6 the non-employer contributions that were made that were
7 inappropriately classified as an employer contribution.

8 Although, both of those classification errors
9 were not material, whether quantitatively or
10 qualitatively, they were proposed by BDO and they were
11 corrected by management. We've observed that the errors
12 appeared to be as a result of a lack of control as it
13 relates to the review of the financial statement
14 categories for proper classification for financial
15 reporting purposes.

16 Both corrections had no impact on total
17 investments or total additional but was only a change
18 within the correct financial statement line. From our
19 observation, we recommend that management implement a
20 control to review all financial statement categories in
21 order assess whether reclassifications are necessary,
22 including those as it relates to investments and
23 additions.

24 We discussed this with management and management
25 has responded to indicate that as it relates to the

1 investment reclassification, the reason why that
2 originated was because CalPERS was in a transition from a
3 current trade allocation service to a new service and the
4 default settings had not yet been adjusted to align the
5 treasury bill trades to be classified as short-term
6 treasuries instead of global debt securities.

7 There really is no user involvement as it relates
8 to the classification of each trade. It is an automated
9 process. When those are appropriately set up, it will be
10 automatically classified appropriately.

11 Management continues to work with the vendors to
12 rectify that and other situations, where default settings
13 may need to be updated and that is currently in process.

14 With respect to the classification of the
15 employer contributions, management has agreed with that
16 finding and they are in the process of implementing
17 additional controls to better identify any additional or
18 out of the ordinary contributions. Those will be added to
19 the financial statement checklist each year to ensure that
20 management is aware and looking out for those
21 classification items. Those will be implemented by
22 September 2021.

23 So that summarizes our current year findings. I
24 did want to summarize the prior year control deficiencies
25 that were identified and the steps that had been taken to

1 remediate those. The prior year, there were two
2 deficiencies that were observed. The first one relates to
3 the review of estimated claim liabilities. CalPERS health
4 care claims fund records estimated claim liabilities,
5 including estimates of alternate claim costs that have
6 been reported but not settled as well as the claims that
7 have been incurred but not reported.

8 In the prior year, we noted that CalPERS did not
9 have a comprehensive review process over the completeness
10 and accuracy of such claim liabilities. We also observed
11 that there had been no evidence of a retrospective
12 analysis that was performed to support the ongoing use of
13 CalPERS's estimate methodologies.

14 We recommended that CalPERS put in place a
15 process to comprehensively review the IBNR estimates and
16 the methodology used for the reasonableness, including for
17 the completeness and accuracy and the information that's
18 included. We also had recommended that CalPERS reconcile
19 the summary third-party administrator claim activity to
20 the detailed plan activity on a regular basis.

21 Management responded and took steps during the
22 year to correct for this. The Health Plan Administration
23 Division team completed and implemented a long-term care
24 fund procedure and process for changes that details the
25 claim's reconciliation. And the team also coordinated

1 with the State Controller's office and will be
2 documenting, implementing and testing the HCF TPA
3 reconciliation of claims summary to the detailed claims
4 for the new PPO contract period coming up. This was
5 effective as of January 1st, 2020.

6 The second finding that we had last year that has
7 also since been remediated was we had observed that the
8 developers in PeopleSoft, that's CalPERS' general ledger,
9 had access to the production environment, which allows
10 them to bypass the program change management controls.
11 This in itself posed a potential segregation of duties
12 issue. And so we had recommended that management remove
13 the developer access to PeopleSoft production. This was
14 done during the year and all developer PeopleSoft
15 production access was terminated in November of 2019. And
16 then periodic PeopleSoft user controls were also put into
17 place in order to identify any potential segregation of
18 duties matters going forward. We concur that that has
19 also been remediated during the year.

20 We will open it up for any questions.

21 CHAIRPERSON MILLER: Okay. Thank you. I'm not
22 seeing any requests for -- oh, there we go. Okay.

23 Director Brown.

24 COMMITTEE MEMBER BROWN: I just wanted to say
25 thank you very much for the follow-up on findings and

1 letting us know that they have been resolved. That's one
2 of my sort of big sticking points. We sometimes have
3 findings internally and we don't actually know how they've
4 been resolved. So very good detail. Thank you very much
5 I'm glad management and the staff has been able to put
6 those recommended changes into practice.

7 Thank you.

8 MS. MAK: Thank you.

9 CHAIRPERSON MILLER: Thank you.

10 I'm seeing no more questions or comments. And
11 I'm

12 COMMITTEE MEMBER BROWN: Is this an action? I'll
13 move approval.

14 CHAIRPERSON MILLER: Yes.

15 COMMITTEE MEMBER BROWN: Move approval.

16 ACTING COMMITTEE MEMBER PAQUIN: Second

17 CHAIRPERSON MILLER: Moved by Ms. Brown and
18 seconded by Ms. Paquin.

19 ACTING COMMITTEE MEMBER PAQUIN: Yes.

20 CHAIRPERSON MILLER: Okay. Seeing no further
21 comments, I'll call for the question. Ms. Hopper, please
22 call the roll.

23 COMMITTEE SECRETARY HOPPER: Margaret Brown?

24 COMMITTEE MEMBER BROWN: Aye.

25 COMMITTEE SECRETARY HOPPER: Frank Ruffino for

1 Fiona Ma?

2 ACTING COMMITTEE MEMBER RUFFINO: Aye.

3 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

4 VICE CHAIRPERSON MIDDLETON: Aye.

5 COMMITTEE SECRETARY HOPPER: Jason Perez?

6 COMMITTEE MEMBER PEREZ: Aye.

7 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

8 COMMITTEE MEMBER WESTLY: Aye.

9 COMMITTEE SECRETARY HOPPER: Lynn Paquin for

10 Betty Yee?

11 ACTING COMMITTEE MEMBER PAQUIN: Aye.

12 COMMITTEE SECRETARY HOPPER: Mr. Chair, I have
13 the motion being made by Margaret Brown, Lynn Paquin
14 seconding it. I have all ayes. And it's for the approval
15 of Item 6b, review of independent auditor's management
16 letter.

17 CHAIRPERSON MILLER: Okay. The item is approved.

18 I just want to again say thank you to Mr. Kim,
19 Ms. Mak and the entire team from BDO and the entire
20 CalPERS team that supported the efforts of the audit. It
21 really made my job as RAC Chairman much easier. Everyone
22 was very helpful and I look forward to continuing to see
23 progress with CalPERS performance in terms of our being
24 responsive to the audits, and every little anything that
25 we find that can be a potential opportunity for

1 improvement. I think over the years it's getting harder
2 to find those little opportunities, but there are --
3 hopefully, we'll always continue to seek to improve. So
4 thank you for your presentations and your answers to our
5 questions.

6 So with that, we'll move to 6c, independent
7 financial statement auditor selection.

8 Ms. Nix.

9 CONTROLLER NIX: Good afternoon, Mr. Chair and
10 members of the Committee. I am Michele Nix, CalPERS
11 Controller and team member. This item presents the
12 process and results of the Request for Proposal initiated
13 this year for the independent external auditor. The Board
14 has delegated to the Risk and Audit Committee the
15 authority to conduct the selection of the Board
16 independent financial statement auditor using a
17 subcommittee of the RAC and to recommend the finalists to
18 the Board.

19 On May 5th, 2020, CalPERS released RFP number
20 2020-8853 to initiate a competitive selection process to
21 engage the services of a qualified audit firm to perform
22 audits of CalPERS financial statements for fiscal years
23 2020-2021 and also -- and then again through 2024 to 2025.
24 CalPERS received five responsive proposals from: BDO USA,
25 LLP; CliftonLarsonAllen, LLP; Deloitte & Touche, LLP; Eide

1 Bailly, LLP; and KPMG, LLP.

2 All proposals passed both the technical and fee
3 proposal evaluations. This item is for the subcommittee
4 of -- is for the subcommittee of the Risk and Audit
5 Committee, or the RAC, to present the highest scoring
6 finalist for the independent audit financial statement
7 auditor. Upon RAC approval, CalPERS will enter contract
8 negotiations with the approved finalist. If contract
9 negotiations are unsuccessful with the approved finalist,
10 this item also seeks approval to enter contract
11 negotiations with the second highest scoring finalist
12 that's allowed per the related request for proposal
13 2020-8853.

14 At today's meeting, the subcommittee is
15 presenting the top highest scoring proposer from the table
16 above or in the actual attachment, BDS -- BDO USA, LLP
17 with a total of 968 points for approval by the RAC as the
18 independent financial statement auditor. KPMG, LLP and
19 CliftonLarsenAllen, LLP were the second and third ranked
20 proposers with 958 and 950 total points respectively.

21 I will turn it back over to you, Mr. Chair, for
22 discussion and direction.

23 CHAIRPERSON MILLER: Thank you, Ms. Nix.

24 I'm not seeing any requests to discuss, so at
25 this point, I would entertain a motion or further

1 discussion. I will say it was a very difficult and
2 challenging selection process in that we had such strong
3 candidates and the scores ended up being quite close.

4 I'm pleased that CalPERS is able to attract such
5 a strong showing among qualified candidates for this
6 opportunity. So any thoughts from anyone before we -- so
7 I would entertain a motion to -- oh, Director Middleton.

8 VICE CHAIRPERSON MIDDLETON: Thank you, Mr.
9 Chair. And I would like to echo your comments. That is
10 was an extremely close and very difficult decision,
11 because we had truly outstanding candidates that were
12 presented to us. But a recommendation was -- scores were
13 received by the Committee and I'd like to recommend that
14 we -- or make the motion that we approve the staff
15 recommendation.

16 CHAIRPERSON MILLER: And is there a second?

17 COMMITTEE MEMBER BROWN: And I'll second.

18 CHAIRPERSON MILLER: Director Brown seconds.

19 Any further discussion?

20 Okay. I'll call for the question. Ms. Hopper,
21 please call the roll.

22 COMMITTEE SECRETARY HOPPER: Margaret Brown?

23 COMMITTEE MEMBER BROWN: Aye.

24 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
25 Fiona Ma?

1 ACTING COMMITTEE MEMBER RUFFINO: Aye.

2 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

3 VICE CHAIRPERSON MIDDLETON: Aye.

4 COMMITTEE SECRETARY HOPPER: Jason Perez?

5 COMMITTEE MEMBER PEREZ: Aye.

6 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

7 COMMITTEE MEMBER WESTLY: Aye.

8 COMMITTEE SECRETARY HOPPER: Lynn Paquin for
9 Betty Yee?

10 ACTING COMMITTEE MEMBER PAQUIN: Aye.

11 COMMITTEE SECRETARY HOPPER: Mr. Chair, I have
12 the motion being made by Lisa Middleton, seconded by
13 Margaret Brown. All ayes for the approval Agenda Item 6c,
14 independent financial statement auditor selection.

15 CHAIRPERSON MILLER: Okay. The motion is
16 approved. And congratulations to BDO and a really
17 heartfelt thank you to everyone else who competed. As
18 Director Middleton said, it was very close and, you know,
19 very encouraging process.

20 So, okay, moving on to Item 6d, the RFP for
21 parallel valuation and certification services. And I call
22 on Ms. Archuleta.

23 DEPUTY CHIEF ACTUARY ARCHULETA: Good afternoon,
24 Mr. Chair and members of the Committee. This agenda
25 item -- of, sorry, Fritzie Archuleta, CalPERS team.

1 This agenda item is a request to release an RFP
2 for actuarial consulting services. The selected
3 contractor would provide a parallel valuation each year to
4 the valuations produced by the actuarial office.
5 Currently, these valuations are performed on a triennial
6 schedule auditing public agency valuations, the State and
7 school valuations and finally the judges and legislators
8 valuations.

9 Best practices guidelines suggest that parallel
10 valuations are performed every three to seven years.
11 Additionally, the actuarial office recommends that after
12 the three-year cycle of parallel valuations, the fourth
13 year will not have a parallel valuation performed.
14 Instead, this fourth year would coincide with our ALM
15 cycle.

16 Recall that during our ALM cycle a separate
17 external audit is done on the experience study. This
18 option will save the organization up to a hundred thousand
19 dollars over the life of the RFP.

20 This concludes my presentation. I will now open
21 it up to any questions.

22 CHAIRPERSON MILLER: Thank you. I will call on
23 Director Brown with a question.

24 COMMITTEE MEMBER BROWN: Thank you.

25 So by not doing it the fourth year is this going

1 to be less oversight? So we're saying we're only going to
2 do parallel valuations for three years and not do it on
3 the fourth?

4 DEPUTY CHIEF ACTUARY ARCHULETA: Yes. So
5 currently, you know, your -- we pick a specific set of
6 valuations that we would do a parallel val on. And so,
7 you know, it would be -- this year, you're going to hear
8 from Buck in just a second on this -- on the judges and
9 legislators valuation system. And so next year is our ALM
10 cycle. And so, yes, in that fourth year, we would not do
11 a parallel valuation at all.

12 COMMITTEE MEMBER BROWN: Yeah, I don't -- I
13 don't -- okay. I don't support that. All right. Thank
14 you.

15 DEPUTY CHIEF ACTUARY ARCHULETA: Okay.

16 CHAIRPERSON MILLER: Director Rubalcava.

17 BOARD MEMBER RUBALCAVA: Thank you.

18 CHAIRPERSON MILLER: Oh, you're still muted,
19 Director Rubalcava.

20 There you go.

21 BOARD MEMBER RUBALCAVA: Thank you. Sorry about
22 that. Yes. Thank you, Mr. Chair. I'm not on this
23 committee, but I'm interested in following the actuarial
24 action.

25 In the executive summary, I just want to make

1 sure I understand the language. It talks about an
2 actuarial audit, and sometimes talks about actuarial
3 review, and sometimes talks about parallel valuation. But
4 what services are actually provided through this RFP. Is
5 it just the parallel valuation or is there also an
6 actuarial audit? And if there is, can you tell me the
7 difference between the actuarial valuation, audit, and
8 parallel valuation. Sorry.

9 DEPUTY CHIEF ACTUARY ARCHULETA: Sure. It's
10 actually just a parallel valuation. So every year, they
11 would pick the set of valuations that they wanted to audit
12 and they would come up with independent liability numbers.
13 And I believe the threshold is five percent within ours to
14 prove reasonability.

15 You know, and then after the whole RFP is over,
16 they do a follow-up, like, you know, this is -- our last
17 contract is expiring right now and they do a follow-up, a
18 closing remark on, you know, anything that they find. So,
19 you know, any little calculation issues that they see,
20 they -- you know, we tweak those numbers, you know, or --
21 you know, as they tell us, if there's anything that they
22 see that's a problem with our valuation system and our
23 calculations.

24 BOARD MEMBER RUBALCAVA: Thank you.

25 DEPUTY CHIEF ACTUARY ARCHULETA: Does that answer

1 your question?

2 BOARD MEMBER RUBALCAVA: Yes. Thank you very
3 much.

4 CHAIRPERSON MILLER: Okay. Director Middleton.

5 VICE CHAIRPERSON MIDDLETON: Thank you, Mr.
6 Chair. Ms. Archuleta, the option of foregoing one out of
7 four years of the parallel audits, is that the
8 recommendation of staff or is that simply an option that
9 you are presenting to the Board?

10 DEPUTY CHIEF ACTUARY ARCHULETA: That is the
11 recommendation of staff. We are still within best
12 practice guidelines, if we do that. And we saw it as
13 opportunity to also save some money for the organization.

14 VICE CHAIRPERSON MIDDLETON: The ALM process, is
15 that duplicative of some of the processes that would be
16 going on if we were to do the parallel audit in the fourth
17 year?

18 DEPUTY CHIEF ACTUARY ARCHULETA: So during the
19 ALM cycle, we also do a demographic experience study. And
20 during that process, we have an external actuary auditing
21 our experience study. So in that fourth year, while we
22 won't have a parallel valuation done, we will still have a
23 independent auditor looking at our experience study and
24 our assumption setting.

25 VICE CHAIRPERSON MIDDLETON: Right. So in terms

1 of actual oversight, do you -- do you see any differences?

2 DEPUTY CHIEF ACTUARY ARCHULETA: I mean, I think
3 that -- as long as we stay within best practices, I think
4 we're okay. We're still well within the three to seven
5 year guidelines, so this is why we're recommending the
6 change.

7 VICE CHAIRPERSON MIDDLETON: Okay. And whether
8 we accept the change or do not accept the change, we can
9 still go forward with the balance of the RFP, correct?

10 DEPUTY CHIEF ACTUARY ARCHULETA: Correct.
11 There's actually two options on the agenda item. The
12 other option is just the regular schedule, which, you
13 know, we would request -- we do another RFP. And then
14 next year, instead of skipping a parallel valuation year,
15 we would go ahead and do the parallel valuation.

16 VICE CHAIRPERSON MIDDLETON: How much time does
17 the parallel valuation take?

18 DEPUTY CHIEF ACTUARY ARCHULETA: It takes roughly
19 three months, I believe.

20 VICE CHAIRPERSON MIDDLETON: Okay. Thank you.

21 DEPUTY CHIEF ACTUARY ARCHULETA: Thank you.

22 CHAIRPERSON MILLER: Director Rubalcava.

23 BOARD MEMBER RUBALCAVA: Thank you. Thank you,
24 Ms. Archuleta. I had a question on the experience study.
25 Is the experience study on the demographic assumptions or

1 is it also on the demographic and economic assumptions, if
2 you could explain?

3 DEPUTY CHIEF ACTUARY ARCHULETA: I'm sorry. It's
4 an experience study on both.

5 BOARD MEMBER RUBALCAVA: Thanks.

6 DEPUTY CHIEF ACTUARY ARCHULETA: And then the ALM
7 obviously is the study on the discount rate, but there's
8 inflation in there.

9 BOARD MEMBER RUBALCAVA: Got it. Thank you very
10 much for the clarification.

11 CHAIRPERSON MILLER: Okay. I see no more
12 requests to speak on this -- or ask questions. So oh --

13 ACTING COMMITTEE MEMBER RUFFINO: Mr. Chair.

14 CHAIRPERSON MILLER: Oh, Mr. Ruffino.

15 ACTING COMMITTEE MEMBER RUFFINO: Yeah, thank
16 you, Mr. Chair. I just have a quick question. What
17 prompt for staff -- what prompt the change or the
18 suggested action, is that something that we have done in
19 the past?

20 DEPUTY CHIEF ACTUARY ARCHULETA: I'm sorry. I'm
21 going to repeat the question, because I think you said
22 what prompted the change? You kind of cut out.

23 ACTING COMMITTEE MEMBER RUFFINO: Well, what
24 prompt the suggested change? Have we skipped on fourth
25 year in the past or is that -- have we done this in the

1 past at all?

2 DEPUTY CHIEF ACTUARY ARCHULETA: That's a good
3 question. I think we used to not do a parallel valuation
4 on the fourth year, but I can't say for certain. I could
5 maybe ask Scott that question. But this year, the reason
6 that we decided to do the recommendation was, you know,
7 the RFP -- the current RFP is finishing and this was the
8 last year, so we will have to create another one, if we
9 want to continue to do parallel valuations. And we saw it
10 as an opportunity to save money for the organization, even
11 though we're staying within best practices.

12 I'm not sure if -- Scott, do you want to -- did
13 we used to skip in that fourth year? I thought we did.

14 CHIEF ACTUARY TERANDO: Sure. So maybe I can add
15 some comments on that. Normally, you know, during the ALM
16 cycle, that's kind of -- next year, we always have a
17 review of the experience study. You know, that's going to
18 be setting a discount rate, the economic assumptions, as
19 well as all the demographic assumptions. And that is
20 reviewed every four years to line up with the ALM process.

21 So what would happen is that we go in and we have
22 a parallel val in the same year, which is going to be
23 happening, is you're going to be reviewing the one
24 group -- you know, one of those three sets of groups based
25 on the old assumptions, because the new assumptions

1 haven't been set yet. So what happens is basically you're
2 having two audits done -- or parallel valuations done in
3 the same year.

4 You have the -- say, they're doing State and
5 schools, they're going to be the doing the State and
6 school review, and you're also going to be having the
7 audit done or the review done on the experience study. So
8 you're basically having two reviews done on the same year,
9 so it's double the work. Normally, you'd want to
10 reallocate one portion every year and so the fourth -- you
11 know, that fourth year would be the experience study. You
12 know, it lines up that it's -- everything is getting
13 covered.

14 And as a reminder, you also have your independent
15 auditor reviewing the system as well. They're looking at
16 our assumptions. They're looking at our processes now.
17 They don't do a parallel val, where they take our data and
18 run through their system and do a person-by-person
19 comparison, this is what this is.

20 But you're basically -- in the ALM cycle, if we
21 do -- if we don't make a change, you're basically going to
22 have two parallel valuations done, an audit done on the
23 experience study, and you're going to have the independent
24 audit review as well.

25 Yes, there -- that's like triple oversight.

1 That's fine if you want to go ahead and have that, but
2 considering everything that's being -- we have oversight
3 every year, this would be an opportunity to save some
4 funds for the plans and for the system. So that's why our
5 suggestion, in terms of, you know, we still meet best
6 practices, but we're saving some money, and it kind of
7 lines up with the timing of everything wells we do. But
8 obviously, you know, it's up to the Committee and the
9 Board on which route they choose.

10 ACTING COMMITTEE MEMBER RUFFINO: Great. Thank
11 you, Scott -- thank you, Mr. Terando. That was helpful.

12 CHAIRPERSON MILLER: Okay. Thank you. It sounds
13 also like then what you're saying, not to put too sharp a
14 point on it, but it sounds like it creates an additional
15 burden on staff to try to do all that all at one time, if
16 they don't really need to do during that fourth year.

17 DEPUTY CHIEF ACTUARY ARCHULETA: That's correct.
18 There's extra work involved for some of the staff, but,
19 you know, we've been doing that as far as I can remember.
20 So that wasn't really an issue.

21 CHAIRPERSON MILLER: Okay. Director Brown.

22 COMMITTEE MEMBER BROWN: Thank you. And that was
23 my question. Thank you, Mr. Miller, for putting a point
24 on that is that if it's a workload issue, that's a
25 different issue for me versus, you know, it's the year

1 that we do the ALM. We've -- I don't want to save a
2 hundred thousand dollars and have less oversight.

3 I mean, we -- this Committee -- I'm not sure what
4 committee tried to do it when they tried to eliminate the
5 guy who does the transcripts. And it's like no, no, no.
6 I don't want to save money to eliminate oversight.

7 If it's duplicative, we can talk about it. If
8 it's a workload issue, we should definitely talk about it.
9 But if this fourth year is important and we get good
10 information out of these parallel valuations, I don't --
11 this is not the time to stop doing these parallel
12 valuations, in my opinion. And I'm not sure who's going
13 to make a motion on that, but that's where I'm at.

14 Thank you.

15 CHAIRPERSON MILLER: Yeah. So Scott, what do we
16 lose, as Director Brown is pointing out, if we're losing
17 something in oversight. Are we losing anything in
18 oversight by not doing parallel valuation in the fourth
19 year?

20 DEPUTY CHIEF ACTUARY ARCHULETA: I'm sorry. I'm
21 having a hard time hearing. I'm just going to repeat your
22 question. You're asking are we missing something if we
23 don't do a parallel valuation in that --

24 CHAIRPERSON MILER: Yeah, that's my question.

25 DEPUTY CHIEF ACTUARY ARCHULETA: So normally this

1 gets (inaudible). We will review public agency valuations
2 in one year, then State and school valuations the
3 following year, and then in the third year we'll do the
4 judges and legislators, and then the '59 Survivor Program.

5 And then the following year, we would just go
6 right back and do public agency valuations again. And so
7 all that -- all this recommendation would do was delay
8 that one year and do, you know, a parallel valuation on
9 the public agency valuations the following year.

10 So we're just going to skip that one year during
11 the ALM cycle. And during the ALM cycle, we would have an
12 independent audit -- actuarial firm audit our experience
13 study. So it would be a different kind of oversight, if
14 you will, because they would look at our experience study
15 and not our actual valuation, you know, products. And
16 then we would start again on the three-year cycle after
17 that.

18 CHAIRPERSON MILLER: Yeah. Thank you. That's
19 very helpful.

20 Okay. I see no more requests to speak. What's
21 the Committee's pleasure? I would entertain a motion for
22 the staff's recommendation or --

23 COMMITTEE MEMBER BROWN: I move that we don't
24 change anything.

25 CHAIRPERSON MILLER: I'm not seeing a second.

1 Do we have another motion?

2 VICE CHAIRPERSON MIDDLETON: I would offer a
3 substitute motion that we accept staff's recommendation.

4 CHAIRPERSON MILLER: Okay. Just a point of
5 order.

6 ACTING COMMITTEE MEMBER RUFFINO: I'll second
7 that.

8 CHAIRPERSON MILLER: I don't think we have a
9 motion -- hang on. Hang on, Frank. I don't think we have
10 a motion to substitute for, because Ms. Brown's motion did
11 not get a second. So I think Ms. Middleton's motion is
12 the motion looking for second. And I think Frank is
13 seconding it.

14 ACTING COMMITTEE MEMBER RUFFINO: Yes, Mr. Chair.

15 CHAIRPERSON MILLER: That's -- okay.

16 So any further discussion?

17 Okay. Seeing none.

18 I will call for the question and ask Ms. Hopper
19 to call the roll.

20 COMMITTEE SECRETARY HOPPER: Margaret Brown?

21 COMMITTEE MEMBER BROWN: No.

22 COMMITTEE SECRETARY HOPPER: Frank Ruffino for
23 Fiona Ma?

24 ACTING COMMITTEE MEMBER RUFFINO: Yes.

25 COMMITTEE SECRETARY HOPPER: Lisa Middleton?

1 VICE CHAIRPERSON MIDDLETON: Aye.

2 COMMITTEE SECRETARY HOPPER: Jason Perez?

3 COMMITTEE MEMBER PEREZ: Aye.

4 COMMITTEE SECRETARY HOPPER: Shawnda Westly?

5 COMMITTEE MEMBER WESTLY: Aye.

6 COMMITTEE SECRETARY HOPPER: Lynn Paquin for
7 Betty Yee?

8 ACTING COMMITTEE MEMBER PAQUIN: Aye.

9 COMMITTEE SECRETARY HOPPER: Mr. Chair, I have
10 the motion made by Lisa Middleton and seconded by Frank
11 Ruffino for Fiona Ma to approve item Agenda 6d.

12 CHAIRPERSON MILLER: Okay. Thank you, Ms.
13 Hopper. The item is approved. And we move on to Item 7.
14 Information Item 7a, third-party valuation and
15 certification. And it looks like I'll be call on Ms.
16 Chappuie.

17 CHIEF AUDITOR CHAPPUIE: Good afternoon, Mr.
18 Chair and members of the Committee. Beliz Chappuie,
19 Office of Audit Services.

20 Agenda Item 7a is an information item. Buck
21 Global completed its independent review of the actuarial
22 valuations of the Judges' Retirement System, Retirement
23 System II, Legislators' Retirement System, and the 1959
24 Survive Benefit Program as of June 30, 2019. Buck Global
25 staff is here to present their report. And I would like

1 to turn it over to them.

2 You're up.

3 MR. DRISCOLL: Than you. I am hear of course to
4 present the results of parallel valuations and audits of
5 the CalPERS actuarial valuation reports, those
6 specifically due under Task 6 of the current contract.
7 This includes coverage of the June 30th, 2019 valuations
8 of the 1959 Survivor Benefit Program, the Judges'
9 Retirement Program, Judges' Retirement Program II, and the
10 Legislators' Retirement System.

11 What we do in these parallel valuations is to see
12 whether we can reproduce results within five percent, if
13 we start with the same data an assumptions and set of
14 methods as the CalPERS Actuarial Office. I'm pleased to
15 report that we were able to do that.

16 Additionally, we reviewed the assumptions and
17 methods used for reasonableness and consistency with
18 actuarial standards of practice. We found that in every
19 case, they were certainly reasonable and complied with
20 actuarial standards of practice. We also review the
21 reports for content that is thorough and understandable
22 and complies with actuarial standards of practice.

23 Regarding communication, we found that those were
24 fulfilled. In general, we find as in our earlier audits
25 that the work of the Actuarial Office of CalPERS with

1 respect to the plans covered in this task is of very high
2 quality. And we would say that Board members may be very
3 confident that the actuarial work of CalPERS is being
4 conducted in a very, very capable way.

5 All of that said, we did have a few suggestions,
6 which you've seen in our reports, as to ways in which the
7 valuation reports for these systems might be enhanced.
8 Those suggestions have been shared with the leadership of
9 the Actuarial Office of CalPERS for their consideration.
10 I emphasize, however, that if any of those suggestions
11 were adopted, they would not, in any significant way,
12 change the results reported in the reports or any actions
13 taken upon them.

14 And with that, I would be happy to entertain
15 questions.

16 CHAIRPERSON MILLER: I don't have any requests to
17 speak. Let me just double check.

18 No, no questions or comments. So thank you very
19 much for that presentation.

20 MR. DRISCOLL: Thank you.

21 CHAIRPERSON MILLER: Is there anything else
22 there, Ms. Chappuie?

23 CHIEF AUDITOR CHAPPUIE: I don't believe so, Mr.
24 Chair. This is an information item.

25 CHAIRPERSON MILLER: Okay. That does it for that

1 item. So on to 7b, Enterprise Risk Management Framework
2 Preview.

3 Mr. Forrest Grimes.

4 CHIEF RISK OFFICER GRIMES: Good afternoon, Mr.
5 Chair, Committee members, and members of the Board.
6 Forrest Grimes, CalPERS team.

7 It's nice to be with you as always.

8 Item 7b is an information item. And I'm going to
9 update the Committee on the current state of enterprise
10 risk management efforts. Risk assessments added a COVID
11 lens this year, as you might imagine. Could we get the
12 presentation up, please.

13 (Thereupon a slide presentation.)

14 CHIEF RISK OFFICER GRIMES: I'm specifically
15 looking for attachment 1, enterprise -- there we go.

16 Thank you very much.

17 So this is the Enterprise Risk Management
18 Dashboard. This is a very high level scorecard. And this
19 year, you can see that we actually -- if we scroll down
20 towards the bottom, you would see that we not only
21 added climate risk, but we also added long-term care to
22 the dashboard, which now we have ten enterprise risks.

23 The arrows that you see on this report indicate
24 how the risk is trending. And the comments column
25 provides a brief overview of the status of the risk as it

1 now stands.

2 Can we advance to attachment 4, please, which I
3 think is two pages up.

4 --o0o--

5 CHIEF RISK OFFICER GRIMES: While we're doing
6 that, attachment 4 -- there it is. This is a new report
7 that we're providing this year. And I think this really
8 enhance the framework, the risk management framework, and
9 provides that next level of maturity that we're always
10 trying to bring as we review this with you annually.

11 This is the developing risk report. And
12 basically, this identifies risks that are not yet well
13 understood. And what we intend to do with these risks is
14 analyze and monitor them. We also will implement
15 low-cost, low-regret mitigations, if available. And
16 really the -- what I just said really is that we will
17 implement things that we really don't have to spend a
18 whole lot of resources on, because we're not sure how
19 effective they might be until we better understand the
20 risks. So we would not spend a lot of resources on
21 mitigate -- mitigating these risks at this time.

22 The identify developing risks include extended
23 pandemic, and I think we're seeing some of that at this
24 point, the new working model, policy uncertainties and
25 social instability, and third-party risk. More to follow

1 on those as we proceed.

2 Next page, please.

3 --o0o--

4 CHIEF RISK OFFICER GRIMES: What you're going to
5 be seeing is our heatmap. And this really -- when this
6 comes up, you'll see that the impact is on the Y axis,
7 probability is on the X axis, and the velocity is
8 reflected by the size of the bubble, larger being faster
9 to come to fruition.

10 The gray really indicates the 2019 results, while
11 the white plotting indicates the 2020 results, the current
12 results. And noteworthy changes are that we added climate
13 change and long-term care, as I previously mentioned.
14 Both are in the higher risk upper right quadrant. And if
15 you look at this a little carefully, you'll see that that
16 is immediate action required is what that would indicate.
17 I don't think anyone would disagree with that on both of
18 those fronts.

19 Information security you can see has been reduced
20 due to better controls being in place. And the governance
21 and control environment risk has increased due to the need
22 for additional controls that are either now being
23 implemented or under development.

24 With that, I'm going to stop and see if you have
25 any questions.

1 CHAIRPERSON MILLER: Okay. I'm not seeing any
2 requests for questions or comments.

3 Let me just double check here, because -- no. It
4 looks like no questions or comments. But I will say that
5 I find -- I always find the risk discussions to be really
6 important and helpful. And I really appreciate the
7 clarity of the presentation. I think that's reflected by
8 the fact that we understood it and didn't have a bunch of
9 questions. So I do see Ms. Paquin has a question.

10 ACTING COMMITTEE MEMBER PAQUIN: Yes. Thank you,
11 Mr. Chair. It's more of a comment. I just wanted to say
12 that I really do appreciate the addition of the developing
13 risk areas, along with the sustainability, the climate
14 risk and the long-term care risk added to the matrix. I
15 think that that will really help and keep us all focused
16 on where the risk lies for the enterprise. So thank you.

17 CHIEF RISK OFFICER GRIMES: You're quite welcome.

18 CHAIRPERSON MILLER: Ms. Middleton, you have a
19 comment. I have a comment from Ms. Middleton as well.

20 VICE CHAIRPERSON MIDDLETON: All right. Thank
21 you, Mr. Chair. And I want to thank staff for the work.
22 This is really impressive. And when I look at the heatmap
23 I see that pension funding in terms of its impact is -- as
24 an issue is growing and it is already at -- at the peak on
25 this map. And I know staff is working on issues around

1 this, some of them are systemic for us, but I think we
2 cannot lose sight of the grave risks that are associated
3 with the cost of our pension programs.

4 Thank you.

5 CHIEF RISK OFFICER GRIMES: Yes, Ms. Middleton.
6 And I wanted to just -- just reiterate that the reasons
7 that this risk is perceived to be higher is two-fold,
8 because basically we think that COVID has created some
9 financial stress, as you mentioned previously on our
10 employers. And additionally, you can see that velocity
11 has increased. And I think that this really has
12 attributed to the speed with this -- with this pandemic
13 and how quickly something can really happen to the revenue
14 sources.

15 We didn't really think that would be possible
16 previously, but this pandemic is creating a lot of issues
17 that didn't seem like they were possible previously.

18 So thank you.

19 VICE CHAIRPERSON MIDDLETON: Thank you.

20 CHAIRPERSON MILLER: Thanks again for the
21 presentation and the answers.

22 And seeing no further requests to speak, I think
23 that closes that out.

24 And so we'll move on to summary of committee
25 direction. Back to Ms. Timberlake D'Adamo.

1 CHIEF COMPLIANCE OFFICER TIMBERLAKE D'ADAMO:

2 Yes. Hi. Thank you. I did not record any
3 Committee direction.

4 CHAIRPERSON MILLER: I didn't catch any either.

5 (Laughter.)

6 CHAIRPERSON MILLER: So there's concurrence on
7 that. And I don't believe we have any requests for public
8 comment. Mr. Fox, is that true?

9 STAKEHOLDER RELATIONS CHIEF FOX: That is
10 correct, Mr. Chair. There are no callers on this
11 Committee.

12 CHAIRPERSON MILLER: Okay. Thank you, sir.

13 So that wraps up open session. We'll leave this
14 and transition to closed session. And I think we'll see
15 you all there shortly.

16 VICE CHAIRPERSON MIDDLETON: Mr. Chair, if I
17 could just compliment you on doing triple duty today,
18 having to chair three different committees and
19 congratulations. Thank you.

20 CHAIRPERSON MILLER: Well, thank you. I'm just
21 trained to cope with all these different letter devices.
22 So it's not natural to me, so I appreciate the
23 encouragement.

24 Thank you.

25 Okay. See you soon in closed.

(Thereupon the California Public Employees'
Retirement System, Board of Administration,
Risk & Audit Committee open session
meeting adjourned at 5:12 p.m.)

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CERTIFICATE OF REPORTER

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 25th day of November, 2020.

JAMES F. PETERS, CSR
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