

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

CALPERS AUDITORIUM
LINCOLN PLAZA NORTH
400 P STREET
SACRAMENTO, CALIFORNIA

TUESDAY, JUNE 14, 2022
10:57 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

APPEARANCES

COMMITTEE MEMBERS:

Lisa Middleton, Chairperson

David Miller, Vice Chairperson

Fiona Ma, represented by Sertan Usanmaz

Jose Luis Pacheco

Ramon Rubalcava

Betty Yee, represented by Karen Greene Ross

BOARD MEMBERS:

Rob Feckner, Vice President

Eraina Ortega, represented by Nicole Griffith

Theresa Taylor, President

Mullissa Willette

STAFF:

Marcie Frost, Chief Executive Officer

Matt Jacobs, General Counsel

Kevin Fein, Chief Compliance Officer

Beliz Chappuie, Chief Auditor

Christina Ortega, Committee Secretary

APPEARANCES CONTINUED

ALSO PRESENT:

J.J. Jelincic

Bill Kim, BDO

Sylvia Mak, BDO

Dipika Nagin, BDO

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1 member and Chief Compliance Officer. I have a number of
2 things to share and discuss with you today. First, in the
3 action agenda items section, we are bringing the
4 Enterprise Compliance and Risk Annual Plan, the Office of
5 Audit Services Annual Plan, and the independent auditor's
6 annual plan for your review and approval.

7 Second, under the information agenda items
8 section, we will be submitting our fiscal year 2021-22
9 annual compliance report and I'll be providing a high
10 level overview.

11 The Risk and Audit Committee meeting after this
12 is scheduled for November 16, 2022 and it will include,
13 per the draft agenda, the independent auditor's report for
14 fiscal year 2021-22, the review of the independent
15 auditor's management letter, and Chief Compliance Officer
16 update on preliminary plans.

17 This concludes my report and happy to take any
18 questions.

19 CHAIRPERSON MIDDLETON: Great. Are there any
20 questions for Mr. Fein at this time?

21 Seeing none, we will move on to action consent
22 items, 3a, approval of June 14, 2022 Risk and Audit
23 Committee timed agenda.

24 COMMITTEE MEMBER PACHECO: (Hand raised.)

25 CHAIRPERSON MIDDLETON: Is -- and is this a voice

1 vote?

2 COMMITTEE SECRETARY ORTEGA: Yes.

3 CHAIRPERSON MIDDLETON: Okay. All those in
4 favor, please say aye?

5 (Ayes.)

6 CHAIRPERSON MIDDLETON: Any opposed?

7 Any abstentions?

8 It's approved.

9 We will move on to Item 3b, approval of the
10 minutes of the Risk and Audit Committee for 2022 -- April
11 18, 2022.

12 COMMITTEE MEMBER PACHECO: I move approval.

13 CHAIRPERSON MIDDLETON: All right. Second?

14 VICE CHAIRPERSON MILLER: Second.

15 CHAIRPERSON MIDDLETON: All those in favor,
16 please say aye.

17 (Ayes.)

18 CHAIRPERSON MIDDLETON: Any opposed?

19 Any abstentions.

20 All right. Okay. 4c. Thank you.

21 Next is information consent items. Mr. Fein, 4a.

22 CHIEF COMPLIANCE OFFICER FEIN: Again, as I just
23 mentioned, the next meeting of the RAC would be in
24 November. And you can see the items proposed to be listed
25 for discussion during that meeting.

1 CHAIRPERSON MIDDLETON: All right. 4b, draft
2 agenda for the November 16, 2022 -- 2022 Risk and Audit
3 Committee meeting.

4 CHIEF COMPLIANCE OFFICER FEIN: Again, a few of
5 the items I mentioned and --

6 CHAIRPERSON MIDDLETON: Okay.

7 CHIEF COMPLIANCE OFFICER FEIN: Happy to answer
8 any questions about the draft agenda.

9 CHAIRPERSON MIDDLETON: Any objections?

10 All those in favor, please say aye.

11 (Ayes.)

12 CHAIRPERSON MIDDLETON: 4c.

13 GENERAL COUNSEL JACOBS: Excuse me, Chair
14 Middleton. These are consent items that don't require a
15 vote.

16 CHAIRPERSON MIDDLETON: Okay.

17 GENERAL COUNSEL JACOBS: And I haven't heard that
18 any of these have been pulled for discussion.

19 CHAIRPERSON MIDDLETON: Thank you for the
20 reminder.

21 We'll move on to the quarterly status report,
22 Office of Audit Services.

23 And that's information. Okay.

24 Are there any other items that anyone would want
25 to pull?

1 Seeing none.

2 We have a public comment for 4c, Mr. Jelincic.

3 MR. JELINCIC: Good morning. J.J. Jelincic.

4 I'm asking these questions on behalf of the
5 public, because unlike the Board members, I assume that
6 most of them have not read the consent item material.

7 But in 4c, which is the response to the
8 management audit letter, observation 1 deals with the
9 segregation of duties for -- related to oversight of
10 dormant accounts. The update says that it's resolved and
11 then goes -- at the end it says, "Further assessment and
12 analysis are in progress to formally update any security
13 role in Cal -- myCalPERS that may be needed.

14 And it just struck me that there was a
15 contradiction between staying it was resolved and saying
16 we're doing further research. And so I was hoping you
17 could share some enlightenment on that issue.

18 And then the other observation was number two,
19 which is the death benefit overpayment receivables. And
20 there's never been an explanation as to how CalPERS lost
21 its access to the Social Security full file of death
22 information from the death master file. And I was hoping
23 you could give us some insight as to what happened and how
24 that was lost?

25 Thank you.

1 CHAIRPERSON MIDDLETON: Thank you.

2 Are there any other further comments?

3 MR. JELINCIC: I was hoping that I might get some
4 response. Although, I know you typically don't respond to
5 public comments.

6 CHAIRPERSON MIDDLETON: As in the course of the
7 reports of the staff members, there will be responses.

8 MR. JELINCIC: Okay. Thank you.

9 CHIEF EXECUTIVE OFFICER FROST: I can do it. I
10 can do it. Chair Middleton, I can respond to Mr.
11 Jelincic --

12 CHAIRPERSON MIDDLETON: All right.

13 CHIEF EXECUTIVE OFFICER FROST: -- directly.
14 I'll follow him out.

15 CHAIRPERSON MIDDLETON: All right.

16 Please, go ahead.

17 All right, we will continue. Action Item, 5a,
18 enterprise compliance risk management plans. Mr. Fein.

19 CHIEF COMPLIANCE OFFICER FEIN: Thank you, Madam
20 Chair. This item is the submission for your approval of
21 the fiscal year 2022-23 annual Enterprise Compliance and
22 Risk Management Plan.

23 The 2022-23 plan is designed to continue CalPERS
24 momentum and expanding compliance and risk management
25 standards and frameworks. For the upcoming year,

1 enterprise compliance and enterprise risk will focus on
2 the following areas. Enhancing our inventory of
3 requirements and controls to support compliance and risk
4 management practices. This is a multi-year project and
5 initiative, and will involve both, what we refer to as the
6 first line of defense, which is the actual business units
7 across the enterprise, as well as the second line of
8 defense, including compliance, legal, information security
9 and other partner areas.

10 It will enhance oversight and monitoring
11 capabilities to minimize compliance risk, and consistent
12 with a lot of the initiatives over the past five years,
13 will educate -- continue to educate CalPERS team members
14 to continue to cultivate an ethical and risk-intelligent
15 organization.

16 This concludes my remarks on the 2022-23 plan,
17 but I'm happy to take any questions prior to your vote.

18 CHAIRPERSON MIDDLETON: All right. Are there any
19 questions for Mr. Fein?

20 Let me begin. Mr. Fein, one of the issues that
21 we've had the opportunity to talk about is some of the
22 challenges that are presented to auditors because of the
23 move to remote working. Could you give us an overview of
24 those challenges and your initial thoughts on how to
25 approach dealing with what is effectively a very changed

1 workplace.

2 CHIEF COMPLIANCE OFFICER FEIN: Yes. I've spent
3 some time prior to joining CalPERS and between the last
4 private sector corporation where I had broad compliance
5 responsibilities looking at what the industry was doing
6 throughout this period over the last two years. I think
7 when I look at the work CalPERS has done coming out of the
8 current and nearly finished five-year strategic plan for
9 '17 to '22, and then look at the steps that we're taken,
10 the technological capabilities that were developed, et
11 cetera, by CalPERS during the pandemic, I would say I
12 don't see CalPERS having nearly the type of challenges,
13 based on its business model, as many of the financial
14 services corporations where I worked in the past, in
15 particular where people were engaging with clients as
16 sales people, and trying to, you know, convince an
17 individual or a corporation in the institutional sector
18 about a -- you know, the value of a particular
19 transaction.

20 You know, I don't know if you all are familiar
21 with the suitability requirements on the street-side that
22 are -- come from several federal regulators. But as I
23 look at CalPERS type of business activities and the way
24 they've been conducted over the past two years, I think
25 there are certainly some challenges, but I don't think

1 they're insurmountable. I think I've seen -- I think I
2 talked about in April the total number of audit reports
3 I've been reading going back over several years, and I
4 think, in fact, CalPERS has addressed very well. And I
5 think with some new folks on board in addition to me and
6 having some good team members to collaborate with, I have
7 a fairly high degree confidence that the hybrid remote
8 situation that we brought in beginning in March is really
9 not a terribly insurmountable barrier to good corporate
10 governance, oversight, routines, et cetera.

11 CHAIRPERSON MIDDLETON: All right. Thank you.

12 Are there any questions -- other questions for
13 Mr. Fein?

14 So this is an action item. Do we need a voice
15 vote or a recorded vote?

16 GENERAL COUNSEL JACOBS: Voice vote is fine.

17 CHAIRPERSON MIDDLETON: All right. Is there a?
18 Motion

19 COMMITTEE MEMBER PACHECO: I motion.

20 CHAIRPERSON MIDDLETON: Mr. Pacheco.

21 VICE CHAIRPERSON MILLER: Second.

22 CHAIRPERSON MIDDLETON: Second.

23 All those in favor, please say aye?

24 (Ayes.)

25 CHAIRPERSON MIDDLETON: Opposed?

1 Abstentions?

2 Mr. Fein, thank you.

3 Next Item is 5b, Office of Audit Services. Ms.
4 Chappuie.

5 CHIEF AUDITOR CHAPPUIE: Good morning, Madam
6 Chair and members of the Committee. Beliz Chappuie,
7 Office of Audit Services.

8 Agenda Item 5b is an action item. Staff is
9 requesting the Risk and Audit Committee to approve the
10 Office of Audit Services proposed audit plan for the
11 fiscal year to 2022-23.

12 As required by the internal auditing standards,
13 the Office of Audit Services prepared a risk-based audit
14 plan to determine the priorities of the internal audit
15 activity for the next fiscal year.

16 In conducting the risk assessment, the Office of
17 Audit Services as the third line of defense coordinated
18 its efforts with the second line of defense, the
19 Enterprise Compliance Division and Enterprise Risk
20 Management Division. We interviewed CalPERS executives
21 and senior management teams and sought input from the
22 Board members through surveys. Staff also incorporated
23 information from prior audits.

24 Office of Audit Services has two audit programs,
25 internal audits and employer compliance reviews. In

1 identifying the internal audit assignments and activities,
2 staff evaluated multiple risk factors, such as impact on
3 the organization's strategic goals and financial
4 statements, changes in operations and regulations, and
5 internal controls. Office of Audit Services also
6 allocated resources to consulting engagements and special
7 projects.

8 For the employer compliance reviews, the Office
9 of Audit Services plans to complete four review cycles
10 covering one compliance area per cycle. Using data
11 analytics, staff will identify approximately six to eight
12 agencies for review for each cycle. As required by the
13 internal auditing standards, we'll remain responsive to
14 the changes in organization's operations and programs.
15 And we will review and update the audit plan as necessary.
16 Any modifications to the audit plan will be communicated
17 to the Committee through the quarterly status reports.

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

20 CHAIRPERSON MIDDLETON: Are there any questions
21 for Ms. Chappuie?

22 Seeing none.

23 Is there a motion to approve?

24 VICE CHAIRPERSON MILLER: I'll move.

25 CHAIRPERSON MIDDLETON: Mr. Miller.

1 COMMITTEE MEMBER PACHECO: (Hand raised.)

2 CHAIRPERSON MIDDLETON: Second Mr. Pacheco.

3 All those in favor, please say aye?

4 (Ayes.)

5 CHAIRPERSON MIDDLETON: Any opposed?

6 Then, Ms. Chappuie, that is approved.

7 And we now move on to 5c, which is the
8 independent auditor's annual plan. And welcome, Mr. Kim
9 and all

10 CHIEF AUDITOR CHAPPUIE: Good afternoon, Madam
11 Chair and members of the committee. Beliz Chappuie,
12 office of Audit Services.

13 Agenda Item 5c is an action item. Staff is
14 requesting -- staff requests Risk and Audit Committee to
15 approve the Board's independent auditor, BDO's, audit plan
16 for the audit of CalPERS's financial statements for the
17 fiscal year ending June 30, 2022. The presentation is to
18 provide the Risk and Audit Committee the opportunity to
19 hear from the independent auditor regarding their
20 approach, objectives, scope and deliverables for the
21 financial statement audit and enable the Committee to ask
22 questions --

23 BDO staff are presenting with me today and I
24 would like to turn it over to them.

25 (Thereupon a slide presentation.)

1 MR. KIM: Thank you. Well, good morning, Madam
2 Chair, Vice Chair, and Committee members. And nice to
3 meet you for those that are new to the committee. My name
4 is Billy Kim. I'm the overall BDO engagement partner
5 leading the overall external audit of CalPERS. I'm joined
6 here to today with my colleagues, a Sylvia Mak as well as
7 Dipika Nagin who are both assurance directors at our firm.
8 And they help lead the overall engagement team that we
9 have in serving you. Now, on the phone today, we also
10 have Keith Hammond who is our engagement quality reviewer.
11 And he actually is the one that assists me in ensuring
12 that we deliver a quality audit. Steve Franklin, who's
13 our investments partner is typically -- joins us each time
14 as well, but he's currently on vacation, so he's not here
15 with us today.

16 In terms of our presentation, we'll walk you
17 through our PowerPoint presentation and I'll
18 specifically -- we'll specific specifically highlight key
19 items for your attention.

20 Now, if we could jump to slide five, please.

21 --o0o--

22 MR. KIM: So slide five, this includes the scope
23 of our services. So it includes performing the audit over
24 the overall financial statements of CalPERS for the June
25 30th, 2022 fiscal year, and as well as performing the

1 audits over the GASB 68, 75, employer allocation
2 schedules, and issuing also an attestation report over the
3 census data related to the California Agent
4 Multiple-Employer Defined Pension Plan.

5 As part of our audit, we -- as part of our
6 overall audit of the financial statements for CalPERS, we
7 will report to you the results of our work in November,
8 and this is prior to issuance of these statement. At that
9 same time, we will be sharing any internal control
10 recommendations that we identify and also communicate the
11 remediation results of prior year findings as well.

12 Next slide, please.

13 --o0o--

14 MR. KIM: Now, this slide is a reminder and
15 provides the responsibilities of management as well as the
16 Risk and Audit Committee. For instance, management is
17 responsible for the preparation of the overall financial
18 statements, including the fair presentation of its
19 statements as well as its schedules in accordance with
20 generally accepted accounting standards. And management
21 is also responsible for ensuring that BDO is provided
22 access to the records in order for us to complete our
23 audit.

24 Now, in terms of the Risk and Audit Committee, it
25 is responsible for the overall oversight and

1 accountability of management over the financial reporting
2 process.

3 Next slide, please.

4 --o0o--

5 MR. KIM: Now, this slide covers the auditor's
6 responsibilities. And BDO is responsible to express in a
7 reasonable assurance opinion over the financial statements
8 of CalPERS, including the schedules, in conformity with
9 the Generally Accepted Accounting Principles, and also in
10 performing our audit in -- in -- under the Government
11 Auditing Standards.

12 Next slide, please.

13 --o0o--

14 MR. KIM: Now, this slide is on independence.
15 And this is where we confirm with the Committee that we
16 are independent of CalPERS, which is a requirement under
17 our professional standards. In addition, this slide also
18 describes new independent requirements that are effective
19 for fiscal year 2023, fiscal year -- fiscal year end. So
20 in other words, it's not this year's audit, but next
21 year's audit.

22 Now, we wanted to make sure we provide this
23 update in advance, because it will require us to have some
24 additional considerations, as we're assessing our
25 independence of CalPERS. So for public employee

1 progress.

2 Now, currently, we're actually in our stages of
3 wrapping up our planning as well as our interim testing
4 this month. And so far, we've received great support from
5 management in providing -- them providing the request that
6 we need, as well as -- we have no findings to date that we
7 have to report to you.

8 But as I mentioned before, we will be reporting
9 the full results of our audit -- of the financial
10 statements of CalPERS in November during the November RAC
11 meeting.

12 So with that said, I will pass it off to Sylvia
13 to go through the next few slides.

14 MS. MAK: Thanks, Billy. So if we go to the next
15 slide.

16 --o0o--

17 MS. MAK: Overall, our audit strategy is to
18 assess the risk of material misstatement over the
19 financial statements and schedules, whether due to fraud
20 or error, as well as to design further audit procedures in
21 response to this risks. An audit also includes evaluating
22 the appropriateness of the accounting policies used,
23 assessing the reasonableness of the significant accounting
24 estimates made by management, as well as evaluating the
25 overall presentation of the financial statements and

1 inherent risks prior to evaluating the effectiveness of
2 controls. There will also be a continual assessment of
3 materiality, both quantitative and qualitative
4 considerations. We'll also consider recent developments
5 within the industry, economic environment, and regulatory
6 environment. We'll also consider recently issued
7 accounting pronouncements and policies, as well as taking
8 a closer look at the significant accounting estimates,
9 areas that require judgment, or any significant unusual
10 transactions.

11 We'll also consider the control environment,
12 along with the information systems, if there's any service
13 organizations that are used, and custodial banks as well.
14 We'll also have discussions with the entity's internal
15 auditors. And then finally, we'll also use our
16 specialists we'll consider necessary to help assess any
17 areas of significant risk and areas that may require
18 specialized skills or knowledge.

19 If we go to the next slide --

20 --o0o--

21 MS. MAK: -- audit planning is a collaborative
22 and continuous process. And so as we go and progress
23 through our planning as well as our audit, we will review
24 and update our audit procedures where necessary to respond
25 to additional risks that may arise. We will communicate

1 any changes to the Risk and Audit Committee in a timely
2 manner, as well as let you all know if there have been any
3 changes to any significant risks that are identified.

4 And with that, I'm going to turn it over to
5 Dipika to go through the planned scope of our audit.

6 MS. NAGIN: Thank you, Sylvia. Can we advance to
7 the next slide, please.

8 --o0o--

9 MS. NAGIN: There we go. Thank you.

10 All right. This slide includes our planned scope
11 for the audit. It's based on our initial risk assessment,
12 based on a review of interim financial numbers, as well as
13 meeting held with CalPERS personnel. One of the
14 significant risk areas is the risk of fraud including
15 management override of controls. This is an area, we are
16 required to consider for all of our audits. For CalPERS,
17 our response is going to include sending out third-party
18 confirmations, reviewing any tip line activity, and
19 performing risk-based testing including journal entry
20 testing.

21 Another area of focus is related to the valuation
22 of investments and related income. This includes a
23 particular focus on investments that are based on
24 estimates. We will be sending out confirmations to
25 validate the holdings with respect to third-party

1 custodians for public, private equity, and real estate
2 securities.

3 We will also be using our valuation experts for
4 harder to value investments to independently compare these
5 values that are assessed by management. We will be
6 testing gains and losses that have been realized during
7 the fiscal year as well.

8 Another significant estimate is the long-term
9 care liability for future policy benefits for the
10 Long-Term Care Fund. We are planning to use our actuarial
11 specialist to assist us in reviewing the actuarial
12 valuation reports, including the review of management's
13 estimation methodology and any key assumptions used, such
14 as the discount rate.

15 Another area of focus is the estimated insurance
16 claims due for the Health Care Fund. This is a shorter
17 term liability. We will also utilize the assistance of
18 our actuarial specialists to review the methodology and
19 calculation of the liability.

20 The next area of focus is pension and other
21 post-retirement benefit liabilities and related
22 disclosures. We will test the underlying census data for
23 completeness and accuracy. We will use our in-house
24 actuarial professionals to assist us in reviewing the
25 pension valuation reports prepared by CalPERS actuaries.

1 We will also perform recalculation procedures.

2 Other areas of focus include plan contributions,
3 benefit payments, and premium revenues. We will utilize a
4 combination of sample testing, along with analytical
5 analyses to get comfortable over those amounts.

6 And then finally, we will focus on information
7 systems. As part of our planning process, we have been
8 working to identify all of the systems that are relevant
9 to the financial reporting process. For those systems, we
10 will perform procedures in reviewing the internal
11 controls, and this includes controls over cybersecurity.

12 And with that, I'll pass it over to Billy to take
13 us through the remainder of the presentation.

14 --o0o--

15 MR. KIM: Thank you.

16 The last few -- the last few slides that we have
17 are -- provides some industry risk and resources that the
18 firm has available to our clients. And so that includes a
19 public sector resources and thought leadership piece as
20 well, which are all available on our website.

21 With that said, that concludes our prepared
22 remarks, so if there's any specific questions, we're happy
23 to address them.

24 CHAIRPERSON MIDDLETON: Sounds good.

25 Are there any questions for BDO?

1 Billy and everyone, let me begin. Could you
2 highlight any significant new issues or changes that you
3 have identified in the audit plan this year from previous
4 years?

5 MR. KIM: Yes. One of the areas that has always
6 been an area of focus is investment valuations. Now,
7 given the volatility in the market, that is continuing to
8 be an area of focus as well for this year. So that does
9 include valuations of anything in which would include
10 additional estimation analysis that would need to be
11 looked at. And that would include any investments that
12 existed within Russia for instance, as an example.

13 So those are some of the things that we are
14 definitely taking into consideration, making sure that we
15 have appropriate procedures to get comfortable over the
16 valuation of such investments.

17 CHAIRPERSON MIDDLETON: That sounds very
18 important and critical. As you mentioned, it's a very
19 volatile market. So what's your approach, given that the
20 volatility that's inherent in the market, in making
21 determinations that things have been properly valued?

22 MR. KIM: Yes. So in terms of what we will be
23 ensuring that we do, it's going to be very important for
24 us to have as much information independently also in terms
25 of what is as of 6/30 year end.

1 CHAIRPERSON MIDDLETON: Um-hmm.

2 MR. KIM: And so management does have a process
3 where they preliminarily value their investments using
4 some interim information until the 6/30 information
5 come -- actually comes available prior to issuance. And
6 so, we'll be making sure that we wait for that information
7 to make sure that the appropriate values are assessed and
8 considered for recording.

9 On top of that, we use our own independent
10 specialist. So, for instance, there's certain investments
11 that are not -- you know, there's not as much market
12 information, for instance. And so we -- we have valuation
13 specialists that assist us in independently assessing
14 values and reviewing valuation reports that are received
15 from CalPERS as well. So that includes real asset type
16 investments as well, and other private equity type
17 investments.

18 CHAIRPERSON MIDDLETON: All right. Thank you.

19 This is coming on to the time is going to be
20 pretty intense for you and for everyone. Are there any
21 resources that you need from staff or from the Board that
22 you're not receiving?

23 MR. KIM: No, not at this point. We've received
24 great cooperation thus far. We are hoping that would
25 continue to be the case for the rest of the audit. And so

1 we will be commencing our year-end field work in
2 mid-August. And so at that point in time, it will get
3 pretty busy for us.

4 CHAIRPERSON MIDDLETON: All right. Again, any --
5 Mr. Mr. Pacheco. Thank you.

6 I don't have you -- you need to make a request.

7 COMMITTEE MEMBER PACHECO: I did.

8 CHAIRPERSON MIDDLETON: It's not showing up.

9 COMMITTEE MEMBER PACHECO: It's green.

10 CHAIRPERSON MIDDLETON: There you go.

11 There we are.

12 COMMITTEE MEMBER PACHECO: There it is. Thank
13 you. Sorry for the technical difficulties there. Thank
14 you very much for the presentation. My question is on --
15 back on the scope of work, specifically the information
16 systems and the -- in terms of evaluating the systems for
17 financial reporting. And my interest -- my question is
18 about the cybersecurity controls and what's are the --
19 what are the process or the systems that you are to be
20 evaluating with respect to that. You know, given all of
21 the things that have been going on in the world with
22 cybersecurity, malware, ransomware, what are your, you
23 know, approach in that respect?

24 Thank you.

25 MR. KIM: No. Thank you for bringing that up.

1 That is something where we are considering looking at even
2 deeper this year, just given what's going on in the world
3 as well. And so we look at it from the lens of how it
4 potentially can impact the financial reporting process.

5 COMMITTEE MEMBER PACHECO: Um-hmm.

6 MR. KIM: And so as part of that, we, you know,
7 end up -- what we're going to be doing is we're going --
8 we're going to be utilizing our cybersecurity experts to
9 assist us to perform walk-throughs of understanding the
10 controls that exist in that arena, and just to see any
11 specific connections or potential gaps that might exist in
12 terms of it impacting the financial reporting process.

13 And so -- yeah, so as it relates to this, it's a
14 little unknown in terms of -- from a CalPERS perspective,
15 we've always looked at it. It's been something that we've
16 always considered. But this year, we wanted to make sure
17 that we're also specifically bringing in specific experts
18 in place to really assist us to go a little bit deeper
19 from an understanding and risk assessment process.

20 COMMITTEE MEMBER PACHECO: Well, thank you.
21 Thank you very much for that. That's just -- I believe
22 that's really important these days, especially with the
23 war in Ukraine and a Russia tax and so forth. So thank
24 you. Appreciate that. Bye-bye. Thanks.

25 CHAIRPERSON MIDDLETON: Are there any other

1 questions?

2 Mr. Rubalcava.

3 COMMITTEE MEMBER RUBALCAVA: Thank -- thank you.

4 I also have a question on the scope of work on
5 the Pension and OPEB related disclosures. In your
6 presentation, you mentioned you have -- well, the scope of
7 work says you have internal actuaries, but you also
8 mention you have external experts. So and you're going --
9 the way it's written out here, you're going to use a
10 sample census and just confirm the reasonableness of
11 assumptions. Does that mean you do a -- you look at
12 the -- like the -- we just had an experience study, so do
13 you look at the reasonableness of the demographic
14 assumptions that were -- two questions, that we accept the
15 demographic assumptions for example, because you did
16 mention the discount rate, but -- and second, did you do a
17 parallel actuarial or how do you test it? I mean, is
18 there a -- because I know some systems they hire somebody
19 to do a -- and not -- the way they do not -- they
20 duplicate the actuary. But are you going to do that too
21 or is it more like -- well, just explain it, I guess, is
22 how -- what is the -- the work that's going to be done?

23 Thank you

24 MR. KIM: Sure and thank you for the question.

25 Yeah. So we have internal pension actuaries

1 within the firm. And so as part of our audit, what they
2 will be doing is assisting us in understanding the
3 methodology that CalPERS has used in putting together
4 their valuations that drives what is ultimately recorded
5 and also disclosed from a pension perspective.

6 And so what -- what that entails is reviewing the
7 methodology, reviewing the assumptions, and then also
8 specifically running within in our own models to see if it
9 makes sense as well.

10 So there's -- in some degree, there's an
11 independent parallel analysis that goes on from an
12 auditing perspective. At the same time, you know, there's
13 the experience study would be something that we definitely
14 take a look at as well. And then on top of that, if
15 there's any other parallel reviews that take place by the
16 organization, then we'll take a look at that as well to
17 see if we're getting around the same ballpark in terms of
18 estimation.

19 COMMITTEE MEMBER RUBALCAVA: Thank you. I
20 think --

21 CHIEF EXECUTIVE OFFICER FROST: And, Mr.
22 Rubalcava, we do have an actuarial auditor, Buck
23 Consulting who comes and reports out to the Committee.

24 COMMITTEE MEMBER RUBALCAVA: I see. Thank you.
25 That's what I was getting to.

1 CHIEF EXECUTIVE OFFICER FROST: Yep.

2 COMMITTEE MEMBER RUBALCAVA: Okay. Thank you.

3 CHAIRPERSON MIDDLETON: I don't see any other
4 questions. Are there any others?

5 This then is an action item. If I could get a
6 motion to approve?

7 COMMITTEE MEMBER PACHECO: (Hand raised.)

8 CHAIRPERSON MIDDLETON: Mr. Pacheco.

9 VICE CHAIRPERSON MILLER: Second.

10 CHAIRPERSON MIDDLETON: Second by Mr. Miller.

11 All those in favor please say aye?

12 (Ayes.)

13 CHAIRPERSON MIDDLETON: Any opposed?

14 Any abstentions?

15 The item is passed. And thank you for your work.

16 We will now move on to information agenda Item
17 6a, Annual Compliance Report. Mr. Fein.

18 CHIEF COMPLIANCE OFFICER FEIN: Thank you, Madam
19 Chair. Again Kevin Fein, CalPERS team member and Chief
20 Compliance Officer. In this item, we are submitting the
21 Annual Compliance Report for fiscal year 201-22.

22 Obviously, as the name implies, you're provided this
23 report every year. The full report may be found as an
24 attachment, number 1, to Agenda Item 6a.

25 Before I get started, I would like to point out

1 that on page five of the report, under the first bullet
2 titled Form 700 highlights, the very first bullet should
3 read 2022 instead of 2021. No matter how many times you
4 edit, sometimes a few slip through.

5 The report highlights and provides detail
6 regarding the compliance and risk management activities
7 that have occurred throughout the enterprise over the past
8 fiscal year. The integrated assurance model incorporates
9 compliance, risk management, and governance practices as a
10 multi-faceted approach to promote compliance awareness and
11 accountability. I will highlight just a few of the
12 compliance and risk activities.

13 We obtained 100 percent compliance for all active
14 filers for the 2022 annual Form 700 filing season. We
15 conducted an enhanced Form 700 review for 100 percent of
16 all CalPERS Form 700 filer -- filers, which included a
17 two- to five-year comparison of Form 700s for each filer
18 and a review of financial interests where available
19 resulting in a review of approximately 3,000 Form 700s.
20 And you heard some about that at -- in the February
21 committee meeting. Also, just for your information, we
22 are currently undertaking another 100 percent review of
23 this fiscal year's filings as well.

24 We developed conflict of interest guidance for
25 covered persons and Form 700 filers, including examples

1 applicable to CalPERS. We partnered with the Customer
2 Experience Division to facilitate an outside consultant
3 delivery of five live fraud awareness training events for
4 our Contact Center agents to focus on the latest fraud
5 trends in the industry, social engineering tactics and
6 methods to identify and counter fraud schemes.

7 As in previous years, the balance of the report
8 contains highlights from each branch across the enterprise
9 as to their compliance and risk work and initiatives as
10 well.

11 Thank you. That concludes my remarks. I'm happy
12 to answer any questions.

13 CHAIRPERSON MIDDLETON: Are there any questions
14 for Mr. Fein?

15 Well, let me just add that I've been very pleased
16 and impressed with the method that you're using in
17 stepping into this role, and looking forward to the
18 reports that are produced.

19 CHIEF COMPLIANCE OFFICER FEIN: Thank you, Madam
20 Chair. I'm enjoying working with you all as well and look
21 forward to continuing on for many years to come.

22 CHAIRPERSON MIDDLETON: All right. This was a
23 information item.

24 Item 6b is summary of Committee direction.

25 CHIEF COMPLIANCE OFFICER FEIN: Madam Chair, I

1 took no note of any direction.

2 CHAIRPERSON MIDDLETON: Nor did I.

3 And with that, we will move to Item 6c, public
4 comment. Is there -- there is not further public comment.

5 Then that will bring us to the conclusion -- the
6 temporary conclusion of the open session. We will now
7 recess into closed session for items 1 through 3 of the
8 closed session. The open session of the Risk and Audit
9 Committee meeting will reconvene immediately following
10 this closed session. And I thank everyone for your
11 attendance. We will be beginning with Mr. Fein and then
12 we'll move on to Ms. Chappuie.

13 Thank you.

14 (Off record: 11:40 a.m.)

15 (Thereupon the meeting recessed
16 into closed session.)

17 (Thereupon the meeting reconvened
18 open session.)

19 (On record: 11:49 a.m.)

20 CHAIRPERSON MIDDLETON: We are back in open
21 session and this adjourns this month's Risk and Audit
22 Committee meeting. The next Risk and Audit Committee
23 meeting will be held in November and we will resume the
24 Pension and Health Committee open session at 1 p.m.

25 Thank you.

(Thereupon the California Public Employees'
Retirement System, Board of Administration,
Risk & Audit Committee open session
meeting adjourned at 11:49 a.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 22nd day of June, 2022.

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