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REPORT TO THE RISK AND AUDIT COMMITTEE

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

AUDIT WRAP UP: YEAR ENDED JUNE 30, 2023



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

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Status and Results of the Audit

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Status and Results of the Audit

We have substantially completed the audit of the financial statements of the fiduciary activities and proprietary activities of California Public Employees' Retirement System (CalPERS), a component unit of the State of California, as of and for the year ended June 30, 2023. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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

- ▶ The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- ▶ The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications presented to you on June 21, 2023.
- ▶ We expect to issue unmodified opinions on the financial statements and release our report on November 17, 2023.
- ▶ We also expect to issue at the same time, our report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards*.
- ▶ Our responsibility for other information in documents containing CalPERS' audited financial statements (e.g. management's discussion and analysis, required supplementary information) does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by CalPERS and considered whether such information, or the manner of its presentation, is materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- ▶ All records and information requested by BDO were freely available for our inspection.
- ▶ Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of CalPERS' personnel throughout the course of our work.

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Results of the Audit

SIGNIFICANT ACCOUNTING PRACTICES AND POLICIES

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

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

- ▶ A summary of recently issued accounting pronouncements is included in Note 17 to CalPERS' financial statements. CalPERS did not adopt any significant new accounting pronouncements during the year ended June 30, 2023.
- ▶ There were no changes in significant accounting policies and practices during the year ended June 30, 2023.

SIGNIFICANT ACCOUNTING ESTIMATES

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

Significant estimates related to significant risks include:

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

- ▶ *Long Term Care Fund Liabilities* - Management's estimate of the liability for future policy benefits is based on an actuarial analysis utilizing inputs such as discount rate as well as rates of morbidity, mortality, and policy lapse. This liability has been adjusted in consideration of a settlement liability that was recorded and estimated to be \$764 million.

Other estimates - key areas of focus:

- ▶ *Health Care Fund Estimated Insurance Claims Due* - Management's estimate of incurred but not reported (IBNR) insurance claims is based on an actuarial analysis utilizing inputs such as current claims data and historical patterns.
- ▶ *Pension Liabilities* - Management's estimate of the total pension liability disclosed for its single-employer and multiple-employer cost sharing defined pension plans are prepared by CalPERS actuaries and based on certain actuarial assumptions including discount rate, rates of termination and mortality.

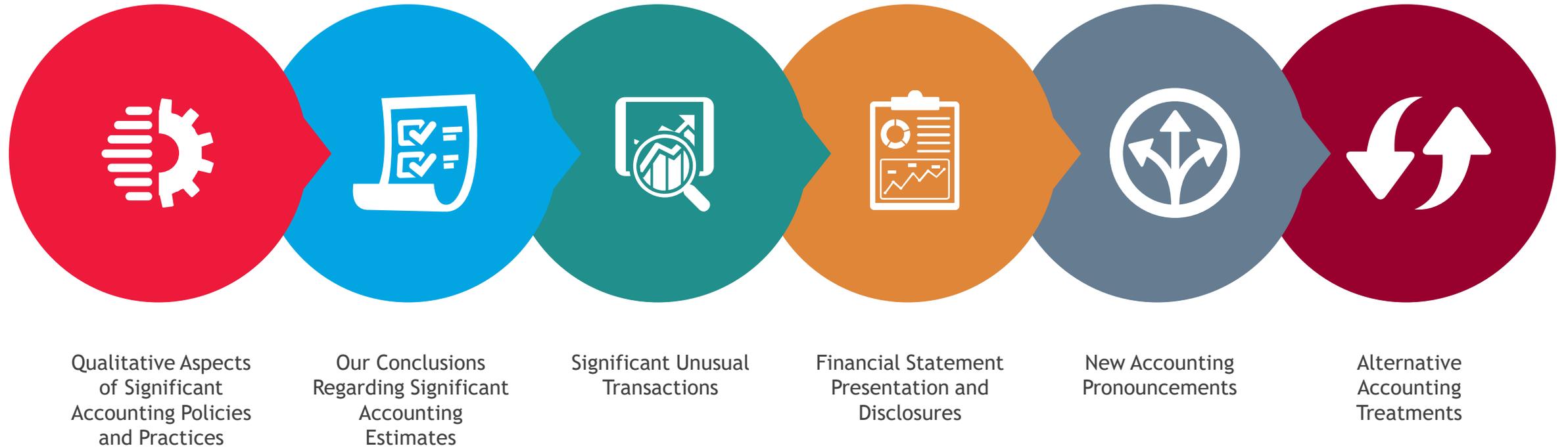
As part of our audit procedures, we evaluated the propriety of the inputs, assumptions, and methodologies used to develop the estimates, including consideration of the competency and objectivity of management's experts as well as the risk of possible management bias. We determined the estimates are reasonable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

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Results of the Audit

QUALITY OF CALPERS' FINANCIAL REPORTING

We have discussed with the Risk and Audit Committee and management about the quality of CalPERS' financial reporting.



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Results of the Audit

CORRECTED AND UNCORRECTED MISSTATEMENTS

See below for a schedule of corrected misstatements we brought to the attention of management.

Account	Debit (in 000s)	Credit (in 000s)	Impact to Net Position	Impact to Changes in Net Position
Estimated Liability for Future Policy Benefits	\$631,700		\$631,700	
Increase (Decrease) in Estimated Liabilities		\$631,700		(\$631,700)
Increase (Decrease) in Estimated Settlement Liability Expense	\$764,100			\$764,100
Claims Expense		\$764,100		(\$764,100)
<i>To correct the accounting for the Estimated Settlement Liability by adjusting Estimated Liability for Future Policy Benefits and the related Increase (Decrease) in Estimated Liabilities line item for the impact from the settlement, and to correct the settlement presentation by reclassifying what was originally recorded as Claims Expense to Increase (Decrease) in Estimated Settlement Liability Expense.</i>				



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

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Internal Control Over Financial Reporting

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Internal Control Over Financial Reporting

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

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

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

Category	Definition
Control Deficiency	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of CalPERS’ financial statements will not be prevented, or detected and corrected, on a timely basis.

In conjunction with our audit of the financial statements, we noted one material weakness in internal controls over the assessment of the appropriate accounting and presentation of estimates related to the accounting of the estimated settlement liability for the Long-Term Care Fund. Further details of the matter are included in the management letter that has also been provided to you.

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Additional Required Communications

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Other Required Communications

Following is a summary of other required items, along with specific discussion points as they pertain to CalPERS:

Requirement	Discussion Point
Significant changes to planned audit strategy or significant risks initially identified	<p>There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications. Significant risks are assessed risks of material misstatement that, in the auditor’s professional judgment, requires special audit consideration.</p> <p>The key areas of focus that represent significant risks associated with the audit are related to the following financial statement areas:</p> <ul style="list-style-type: none"> - Valuation of Private Equity and Real Asset Investments (and related unrealized gain/losses recorded) that have different year-ends compared to CalPERS - Valuation of Long term Care Fund Liabilities for Future Policy Benefits - Risk of fraud over revenue recognition of Premiums and Administrative Fees Earned
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risks of material misstatement, including fraud risks; or tips or complaints regarding CalPERS’ financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Nature and extent of specialized skills or knowledge needed related to significant risks	<p>The nature and extent of specialized skills or knowledge needed to perform the planned audit procedures or evaluate audit results related to significant risks are outlined below:</p> <ul style="list-style-type: none"> - Investments - We utilized BDO valuation specialists to assist in auditing the valuations related to Investments including the valuation methodology used and the key assumptions included. - Long Term Care Fund Liabilities for Future Policy Benefits - We utilized BDO actuarial specialists to assist in auditing the actuarial analysis that support the associated liabilities recorded including the review of the methodology and assumptions included.

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Other Required Communications

Requirement	Discussion Point
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of requirements of generally accepted accounting principles.
Significant findings and issues arising during the audit in connection with CalPERS' related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.
Significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management	There were no significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management other than as follows: On June 6, 2023, management learned of a cybersecurity breach at a third-party vendor which exposed the personal information of approximately 769,000 retired members. Management believes the exposure was mitigated as no financial data was included in the breach and management has stopped working with the vendor.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to CalPERS' financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Matters that are difficult or contentious for which the auditor consulted outside the engagement team	There were no difficult or contentious matters that we consulted with others outside the engagement team that we reasonably determined to be relevant to those charged with governance regarding their oversight of the financial reporting process.
Representations requested from management	A management representation letter will be received from management upon issuance of the financial statements.
Other Matters	There are no other matters that we consider significant to the oversight of the CalPERS's financial reporting process that have not been previously communicated.

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Independence

Our engagement letter to you dated February 13, 2023 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of CalPERS with respect to independence as agreed to by CalPERS. Please refer to that letter for further information.



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CONTINUING TO BUILD TRUST



Audit Firm System of Quality Management

An audit firm's system of quality control (aka system of quality management) is essential to how the firm conducts audits and is in place to protect investors, shareholders and other users of financial statements.

QUALITY MANAGEMENT STANDARDS

In June 2022, the AICPA Auditing Standards Board (ASB) issued the following interrelated standards on audit quality management (collectively, the QM standards), which are designed to improve a CPA firm's risk assessment and audit quality. The effective date of the QM standards is December 15, 2025.

Statement on Quality Management Standards (SQMS) No. 1	Statement on Quality Management Standards (SQMS) No. 2	Statement on Auditing Standards (SAS) No. 146
<i>A Firm's System of Quality Management</i>	<i>Engagement Quality Reviews</i>	<i>Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards</i>

BDO has assessed the requirements of the QM standards and has analyzed our firm's current system of quality management to identify changes and improvements necessary for compliance. This includes the identification of quality objectives, quality risks and the assessment of those quality risks, and responses to address those risks. We are further working with BDO Global to appropriately integrate processes deployed at a global level into our firm's system of quality management.

We will continue to provide you with updates on our progress. Currently, you may find discussion of BDO's system of quality control within our annual [Audit Quality Reports](#), the most recent of which is accessible [here](#).

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At BDO, our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes – for our people, our clients and our communities. Across the U.S., and in over 160 countries through our global organization, BDO professionals provide assurance, tax and advisory services for a diverse range of clients.

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