MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

RISK AND AUDIT COMMITTEE

OPEN SESSION

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

FECKNER AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

THURSDAY, SEPTEMBER 11, 2025

10:03 A.M.

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

APPEARANCES

COMMITTEE MEMBERS:

Malia Cohen, Chairperson

David Miller, Vice Chairperson

Jose Luis Pacheco

Kevin Palkki

Ramón Rubalcava

Mullissa Willette

STAFF:

Marcie Frost, Chief Executive Officer

Michele Nix, Chief Financial Officer

Kevin Fein, Chief Compliance Officer

Robert Carlin, Senior Attorney

Justin Heeb, Assistant Division chief, Operations Support Services Division

ALSO PRESENT:

Lisa Avis, KPMG

Erin Barnes, Crowe

Seth Blackman, KPMG

Craig Christie, BDO

Amanda Cronk, Plante Moran

Bob Dobrowsky, Plante Moran

Tarek Ebeid, KPMG

APPEARANCES CONTINUED

ALSO PRESENT:

Stephen Eisenstein, KPMG

Kristin Hunt, KPMG

Ben Johnson, Plante Moran

Matt Kepler, KPMG

Billy Kim, BDO

John Kurkowski, Crowe

Kathy Lai, Crowe

Jane Letts, KPMG

Sylvia Mak, BDO

Keith Miller, BDO

Gregg Mills, BDO

Dipika Nagin, BDO

Dan O'Malley, Crowe

Alex Rivera, Crowe

Danielle Shriver, Crowe

Steven Shill, BDO

Nate Shureb, Plante Moran

Kevin Smith, Crowe

Spencer Tawa, Plante Moran

Kirstie Tiernan, BDO

Dan VanDreumel, Plante Moran

APPEARANCES CONTINUED

ALSO PRESENT:

Michelle Watterworth, Plante Moran

Jean Young, Plante Moran

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PROCEEDINGS

CHAIR COHEN: Good morning, ladies and gentlemen. It is 10:03. I'm excited to be here. We are -- will call the Risk and Audit Committee meeting to order. Madam Clerk, please call the roll

BOARD CLERK ANDERSON: Malia Cohen.

CHAIR COHEN: Present.

BOARD CLERK ANDERSON: David Miller.

VICE CHAIR MILLER: Here.

BOARD CLERK ANDERSON: Fiona Ma.

Jose Luis Pacheco.

COMMITTEE MEMBER PACHECO: Present.

BOARD CLERK ANDERSON: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Good morning.

BOARD CLERK ANDERSON: Ramón Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Present.

BOARD CLERK ANDERSON: Mullissa Willette.

COMMITTEE MEMBER WILLETTE: Here.

CHAIR COHEN: All right. Thank you very much, Madam Clerk.

Agenda Item 2 is the Executive Report. And I will call on Kevin Fein.

CHIEF COMPLIANCE OFFICER FEIN: Thank you. Good morning, Madam Chair, Mr. Vice Chair, Committee members. Kevin Fein, CalPERS team member and Chief Compliance

Officer. Happy to be with you here today.

During the Board of Administration meeting on February 18th, 2025, the Chair of the Risk and Audit Committee recommended and it was approved to allow CalPERS staff to issue a request for proposal for the selection of an independent financial statement auditor. Additionally, it was approved to use a subcommittee of the Risk and Audit Committee to interview and recommend a finalist for the full Committee and Board of Administration for a five year contract that will exceed $1 million.

On May 20th, 2025, CalPERS released RFP number 2025-9427 to initiate a competitive selection process to engage in services of a qualified audit firm to perform audits of CalPERS financial statements for fiscal years 2025-26 through 2029-30. We are here today to review the finalist firms that the subcommittee has recommended for interviews. There will be four finalist firms to interview. The Risk and Audit Committee has decided that the full Committee will perform the interview portion of the RFP selection process and score the finalist forms.

Unless, there are any questions, that concludes my report.

CHAIR COHEN: All right. Thank you very much, Mr. Fein. I appreciate that. So as you said, today is the full Risk and Audit Committee. We are interviewing the finalists. At this time, I'd like to ask Justin Heeb from CalPERS contract and procurement manager to provide a summary of the RFP as well as the activities to date and the logistics of the interview process.

OPERATIONS SUPPORT SERVICES ASSISTANT DIVISION CHIEF HEEB: Good morning, Madam Chair --

CHAIR COHEN: Good morning.

OPERATIONS SUPPORT SERVICES ASSISTANT DIVISION CHIEF HEEB: -- Mr. Chair -- Vice Chair and Committee members, Justine Heeb, CalPERS team member. The CalPERS Board of Administration has delegated to this Committee, the authority to conduct the selection of the independent financial statement auditor and to recommend a finalist to the Board.

On May 20th, 2025, CalPERS released the RFP number 2025-9427 to seek vendor participation to perform external independent audits of CalPERS financial statements for fiscal year 2025-26 through 2029-30. CalPERS received seven proposals by the final filing date of July 7th, 2025. Four of those seven proposals passed technical proposal evaluation and had their fee score opened and scored.

All four finalists: BDO USA, PC; Crowe, LPP; KPMG, LLP; and Plante Moran PC, were invited for oral interviews, as scheduled today. I would like to take time to update the Committee on the preliminary technical scores for each of the finalists ranked form highest to lowest. BDO USA, PC received 300 points for their fee proposal, 50 points for their DVBE incentive points for a preliminary total score of score of 350 points. KPMG LLP recieved 288.68 points for their fee proposal score and 50 for point -- 50 points for the DVBE incentive points for a preliminary total of 338.68 points. Plante Moran PC received 294.59 points for their fee proposal, 50 points for the DVBE incentive points for a preliminary total score of 344.59. Crow LLP received 290.96 points for their fee proposal score, 5o points for their DVBE incentive points for a preliminary total of 340.96.

Each finalist will be allotted 50 minutes for the interview, five minute presentation, and a 45-minute question and answer period. All finalists will be asked the same questions. If needed, the Committee will have a five minute period for clarifying or follow-up questions, based on the finalist interview responses. At the conclusion of the interview, the Committee will determine the interview score as a group for each finalist and motion the interview scores. The interview scores will be collected and combined with the preliminary total scores to determine a total score for each finalist.

The Committee will then be asked to make a motion recommending the Board a ward the contract to finalist list and the highest total score, subject to final negotiations and satisfaction of all requirements.

This concludes my summary. Thank you.

CHAIR COHEN: All right. Thank you very much for that summary. I also just want to note that we, as a group, will determine the interview score for each finalist with a maximum of 700 points available for each finalist.

So, Mr. Heeb, thank you for the overview. There is one more -- one more programming note for the audience that is watching this meeting remotely over the internet. We are going to turn off the webcast of the meeting during the interviews in order to ensure that our process is fair, where no finalist will be able to see his or her competitors' interviews. We will then resume the webcast after the interviews, so then you'll be able to see the Committee's discussion and score of the finalists.

I want to remind the Committee that once we start, please stay through the entire process. I'd also -- I now would like -- I would now ask that the roll be taken, so that the record reflects the Committee members present and participating in the interview select process for this contract. So if we could do a roll call again.

BOARD CLERK ANDERSON: Malia Cohen.

CHAIR COHEN: Present.

BOARD CLERK ANDERSON: David Miller.

VICE CHAIR MILLER: Here.

BOARD CLERK ANDERSON: Fiona Ma.

Jose Luis Pacheco.

COMMITTEE MEMBER PACHECO: Present.

BOARD CLERK ANDERSON: Kevin Palkki.

COMMITTEE MEMBER PALKKI: Good morning.

BOARD CLERK ANDERSON: Ramón Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Present.

BOARD CLERK ANDERSON: Mullissa Willette.

COMMITTEE MEMBER WILLETTE: Here.

CHAIR COHEN: All right. Thank you very much. And so we'll now conduct the interviews in alphabetical order. We're going to be starting with BDO USA. They will be the first. Crowe, LLP will be the second. KPMG, LLP will be the third. And Plante Moran will be the last interview of the day.

Each finalist will have five minutes for a presentation and 45 minutes for a question and answer period. If needed, the Committee will have a five-minute period for clarifying or follow-up questions based on the finalist's interview responses. The clock will show you the time remaining in each segment. The Committee members -- Committee members, please note that the questions for the finalists are included in Item 2 in the finalists packet. And at this time, I'd like to remind the finalists that each of you -- that each of your firms signed and submitted the CalPERS Board of Administration interview form in the -- in the proposal.

Committee member I need to assign questions to each members. If you don't mind, I'd like to just assign -- I'll take the first one, David Miller the second one, Jose Luis the third one, Kevin Palkki the fourth one, Ramón Rubalcava the fifth one, and Mullissa Willette will have the sixth one. All right? Everybody got that?

Thank you, sir and ma'am.

The form -- going back to the -- to the administrative interview form in the proposal, this form really clearly represents a pledge that each of you will not make any attempt to list -- listen or watch the interview of the other finalists. It also is a statement saying that you -- that you have -- that nor you or anyone else on your behalf will -- no, that you will adhere to this. And failure to adhere to this requirement will result in your firm's disqualification from this engagement.

Are we in agreement?

All right. Thank you.

Scores will be determined by the Committee as a group after all finalists have been interviewed. A score will be motioned for discussion and then seconded and voted upon or substitute motion may possibly happen.

Does anyone have any questions so far?

Colleagues, any questions on your part?

All right. If there are no questions at this point, we'll take a brief pause before beginning the interviews.

Thank you very much.

We will now begin the interview. I'd like to invite up all the representatives from BDO come on up. Come join us into the hot seat.

(Slide presentation.)

CHAIR COHEN: All right. Good morning, team BDO. Welcome. Again, my name is Malia Cohen. I'm the State Controller and this is the wonderful Committee that you'll be presenting to. Just as a reminder, you'll have five minutes for your presentation. Staff, would you please start the clock at five minutes and -- are we ready? All right. BDO you may present.

STEVEN SHILL: Could you advance the slide, please.

Good morning. My name is Steven Shill and I'm a BDO and the leader of the West Region Assurance Practice.

As your executive sponsor, my role on the team is to ensure that you receive best-in-class service as a top priority client. With over six years of experience servicing you, our dedicated team of leaders, Billy Kim being the main lead partner, has built a foundation of trust and continuity that distinguishes our firm from the others. In addition, BDO is one of the largest firms in the U.S. and globally. And unlike the other firms bidding, in 2023, I'm excited to share that we became an ESOP, and employee stock ownership plan company giving every single employee an ownership stake in our success. This decision amongst others has BDO leadership -- made by BDO leadership is aligned with our vision and values, and much like CalPERS, it does for its people and members.

BILLY KIM: Good morning, Committee. Billy Kim, BDO engagement leader specializing in auditing pension plans, as well as health plans as well. My most relevant experience is auditing CalPERS and serving you for the past six years. And I will continue to lead the overall BDO engagement team with a mindset of continuous improvement.

DIPIKA NAGIN: Dipika Nagin. I've been the lead director on CalPERS for the past six years. I specialize in health care and public pension audits. And I will continue to ensure that we have seamless communication and coordination going forward throughout the rest of the audits.

KEITH MILLER: Keith Miller. I'm a principal at BDO in our audit practice. I'm a member of the firm's asset management practice. I'm a seasoned investment professional with 25 years experience and I will continue to support Billy by leading the investments audit.

CRAIG CHRISTIE: Craig Christie. I'm an IS Assurance Principal on the CalPERS audit for the last two years. My focus is on cybersecurity elements of artificial intelligence and executing the IT assessment in support of the audit.

SYLVIA MAK: I'm Sylvia Mak, locally based in the Bay Area. I will continue to be the technical lead working with the engagement team on audit methodology and approach.

GREGG MILLS: Gregg Mills. I am the practice leader of our insurance advisory group, where I lead a team of actuaries across a scope of various sectors of the insurance industry and I will continue to lead the actuarial review for the team.

KIRSTIE TIERNAN: Hi. My name is Kirstie Tiernan and I lead AI strategy for BDO. I also serve on the board of directors. And my job is to make sure that we're translating everything that's happening with AI into efficient outcomes for our clients, as well as ensuring that we're applying the practical application of AI throughout the audit. So think of me as your AI strategist.

BILLY KIM: Our theme for you today is trusted assurance into the future, value focus and innovation driven. And the diagram actually on the screen visualizes how we plan to be serving you in this way. We've built a foundation of trust with you over the past six years, which we believe best positions us to build upon this and continue to add value and also be driven by innovation. And what this actually means is that we'll not be stagnant, but continuously laser focused on moving the needle in improving our service and exceeding your expectations.

Now, this is more important than ever before, given the fact that we're facing rapid technological change with AI and rising cybersecurity threats. And therefore, we believe it's important that you have a firm that already knows you, knows you well, and also because of the fact that not only for the audits to be done timely as we have achieved, but also the successfully navigate this period of change with you and providing value and perspective also along the way.

Now, continuity in your audit team is key and you'll receive this from BDO, and comfort that you audit firm will take data and cybersecurity to the utmost priority is also key, and you'll also receive this from BDO. We have a proven track record of doing so and is supported by the fact that BDO is ranked number one in cybersecurity compared to the other firms and this by Bitsight, which is a third-party cybersecurity rating firm.

We believe BDO is the right firm for CalPERS for the next five years and we look forward to sharing more about that with you today. It's been a great pleasure to be here and it's been such an honor serving CalPERS for the past six years.

CHAIR COHEN: Great. Thank you. Perfect timing. So, we will now proceed to the 45-minute question and answer segment of the interview. BDO, do you have -- you will have a total of six questions, so please plan your time accordingly. Staff if you could start the clock. All right. Can you guys see the clock, the count down?

Okay. Great. All right. So, I'm going to begin with the first question. And the first question is what specific expertise does your firm have in auditing public pension systems without complex investment portfolios? The second part, can you share examples of innovative solutions or insights you've provided to clients like

CalPERS?

You may begin.

BILLY KIM: Keith, will you answer this question for us?

KEITH MILLER: Sure. We are -- have one of the largest asset management practices in the U.S. We have over a thousand employees working in asset management practice and over a hundred in the San Francisco area alone. We work with some of the largest pension plans, foundations, and investment vehicles in the country. And, in fact, across our clients, we audit approximately $2 trillion of investment assets. And so that includes everything that CalPERS holds in its portfolio and a lot more through our hedge fund practice, for example.

I'm pleased to say that through the last several years of working with you as your investments lead auditor, that we're very familiar with the commingled private assets. We're very familiar with the marketable securities you hold, including equities, fixed income, asset-backed securities, mortgage-backed securities, repos. And we've brought up a very refined and streamlined process to audit all of those areas. And indeed, we're comfortable with any additional asset classes should CalPERS determine to take those into its portfolio.

In terms of technology and innovation, I can tell you that we're consistently working in this area. Some examples to share with you is we have a proprietary custom built pricing service that uses, I believe, it's 19 different feeds to press your entire port -- marketable securities portfolio and test that that's correct. It also is able to perform what we call the FASB leveling or GASB leveling service to ensure that the leveling in the disclosures in the financial statements is correct.

And on the commingled fund side, we have built a proprietary system that machine reads the audited financial statements for your investee funds. It also streamlines our confirmation process including pulling data from our confirmations electronically to streamline our audit process and eliminate the possibility of human error.

And we're also using technology to test the ownership and existence of your securities by making sure that those match exactly with the custodian regards, again eliminating the possibility for human error.

BILLY KIM: Yeah. And just to add in terms of our overall practice in serving pension plans. So, ultimately our employee benefit practice, we have over 1,400 plans that we audit, of which 200 of those are pension and OPEB plans, which includes our public pension plans as well. And, you know, that does include not only states, but also municipalities, cities, as well as counties as well. And in terms of other recommendations and best practice that we actually do share with our clients is specifically also, as Keith was alluding to, is in terms of investment fair value best practices is one of the areas that we share with our specific clients specifically in fair value leveling is one of the areas, also in terms of perspective on IT internal controls. And that's really important, especially given the fact where we're at in this period of rapid change with technology, and specifically on segregation duty-specific issues. And then also around actuarial best practices as well, which is very important for public pension plans as yourself.

CHAIR COHEN: Thank you. All right. Second question, Mr. David Miller.

VICE CHAIR MILLER: Explain the process you will use to select samples to assess active member census data, and as a follow-on, describe the risk-based approach you intend to use to test the census data reported to CalPERS for PERF B and C. For reference, this is described in item number two on page three for the RFP.

BILLY KIM: Dipika, will you answer this question for us?

DIPIKA NAGIN: Yes. Thank you. So, you know, we start our process by getting an understanding of the process and walk-throughs. And so, we primarily go through and understand which internal controls are relevant to census. And then from there, we proceed to determine what our risks are and our risk assessment. We'll then use that risk assessment to determine what our targeted procedures are going to be as it relates to testing census and also what key assertions are important in relation to that existent, accuracy, completeness of the census data.

And so with that, we'll determine what our -- we'll design our audit procedures. And part of what we do is we'll make sample selections based on a risk-based approach, looking at what's changed year over year. And also, we're working on developing a proprietary census data analytic as well. And so that's something that's in the pipeline that we'll be working on, so we'll be able to identify anomalies as we feed the data into this analytic. Those are kind of the key census testing procedures that we do.

BILLY KIM: And just to add to that as well is that we go based upon the AICPA State and local accounting guide. And chapter 13 and 14 are the relevant sections that we ensure that we are following the specific approaches that are noted there as well, which is a risk-based approach. So we're looking at, in terms of the employees that exist, the risk profile as well. And that also dictates, in terms of which employees we're selecting. And also, we do try to do a rotational approach as well, which is also discussed within the guide as well. So we ensure we follow the guide and then also use our, as Dipika mentioned, you know, our risk assessment tools and assessments and to -- in order to do that work.

CHAIR COHEN: Thank you. Next question, Kevin Palkki -- or excuse me, Jose Luis Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you, Malia.

The next question is the RFP states that the selected firm will obtain and evaluate the actuarial experience studies and evaluations made by CalPERS staff as they affect the financial statements. Describe your approach for evaluating the studies and evaluations? What will be -- what will your criteria be for determining how these studies and evaluations might affect the financial statements?

Thank you.

BILLY KIM: Gregg, will you answer this question for us?

GREGG MILLS: Absolutely. So as I mentioned at the outset, we have a team of credentialed actuaries that work in-house hand-in-hand with the audit team. Because of the tremendous amount of work that we do on the pension and health care side at BDO, there's really been a big investment that's been made in our actuarial department. So, we have members that are all members of the American Academy of Actuaries. Myself, I'm a fellow in the society of actuaries. And we have folks from the casualty society as well. So we kind of run the gamut.

And what we will do is evaluate whether CalPERS is living up to industry standards as far as their assumptions and methodologies. We'll go in and make sure that anything that deviates from those are, you know, within standard actuarial practice. And in many instances, we'll even run our own parallel analysis. So we do our internal modeling to make sure that the assumptions that are being made make sense and that they are again in compliance with actuarial standards.

CHAIR COHEN: All right. Ramon Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you. I think -- oh, did -- sorry. As described in the RFP, there are specific requirements regarding the timely completion of the -- all the audit work. How would you manage the project to ensure that your firm meets all deadlines? Is -- if there is a risk of not meeting deadlines, what steps will you take to both inform CalPERS management of the risk and what steps will you take to mitigate such risk?

BILLY KIM: Thank you for that question. Dipika, do you want to answer that one.

DIPIKA NAGIN: Yes. Thank you. So, I'll start real quickly just by going over the overall timeline.

So February, we have our reacceptance procedures that we begin with and then we perform planning, risk assessment and interim procedures in March through August. And then our year-end field work is conducted from August to October. And then in mid-October, we issue a draft management letter. And then, of course, in mid-November, we present to you the, Audit Committee, our findings. And then lastly, we continue to do our GASB 68 and 75 work in December.

And after that, we hold debrief meetings with management between December and January just to keep that mindset of continuous improvement going forward. So with that timeline said, in terms of project managing that, you know, we take a very structured and active involvement and approach. Billy and I are part of what we call our core team, and we do hands-on -- you know, hands-on projecting managing with our team. We're engaged throughout the entire audit process from planning, project management, coordination, execution, including the onboarding of new team members.

So, this all starts with onboarding new team members. We take the time to make sure new team members are up to speed on all the protocols and procedures in relation to CalPERS. CalPERS is a large organization, a lot of protocols in place, so we want to make sure our team members are up to speed on that. And then after that, we -- you know, we've organized our teams into subteams by key areas, investment, proprietary who take care of the health care, long-term care, CRF fund. And then we've got census, and then our plan accounting.

And so, these subteams are overseen by one to two managers. And then those managers are then overseen by the principles and the directors on this engagement. And so, you know, that's kind could of the build -- the structure of the organization. And in terms of the day-to-day, we have daily huddles that are led by our manage -- our managers. And that's where we -- each of managers get together with our engagement team with seniors and the staff, and they go through status updates. They'll talk about percentage completed, they'll talk about budget and actual, and they'll discuss sort of, you know, if there's any issues that have come up.

And so that's kind of a very detailed, a daily sort of mechanism. And then we have weekly calls as well with our core team, where we cover anything that we need to cover in regards to like announcements, ensuring that we've got reminders in place, budget updates. That's being cascaded through the rest of the team.

We also have our weekly core subteam meetings. And this really is focused in on addressing logistical items. A lot of project management involved in a large organization, so we definitely put a lot of focus on that. And then, lastly we've got various trackers to sort of manage the day-to-day, including PTO trackers, on-site trackers, accountability matrix, and a very detailed dashboard.

So overall, this is a comprehensive structure that kind of ensures the team is appropriately supervised and monitored. And then, as it relates to sort of communication with CalPERS, staff and management, we have meetings with them on a weekly basis, where we cover any open items, any key matters to bring up priority items. And then we also have ad hoc meetings with them. So, you know, we're available whether it's by phone, by email, by, you know, virtual calls, in-person. We make ourselves available, and so that way, if there's anything that comes up, we're immediately -- our attention is on it and we're prioritizing it. And then we also have an escalation protocol that we built with management's input. And so that way if there are any items that pop up, we're addressing it right away.

BILLY KIM: And just to add to that, the mindset that we have in serving CalPERS is to ensure that it's all about transparency. And that's one of the things working with your management, ensuring there's that open-door policy, that we're continuously talking to them. So, on top of the weekly meetings that Dipika had mentioned, we also have specific meetings with the controller on a weekly basis as well. And that's just to go and talk through some of the things that we're anticipating in terms of potential matters that we should be need to be collaborating and ensuring that we work on, and -- because we're both trying to work together to make sure we get everything we need for the audit, as well as addressing any potential matters and coming to a specific resolution to that. So that requires a level of commitment to transparency and clear communication, and constant communication as well, and just the anticipation as well.

And then the other thing I would add is that, you know, we believe it's utterly important to also be connected to all different aspects of the -- of CalPERS division, including ourself, as a committee and actively listening to you about, you know, your concerns or about any specific risks or any feedback, so that we're taking all of those things into consideration, so nothing falls through the cracks as well.

And if there is some sort of matter that does come up, which, you know, sometimes do, we want to try to minimize those matters that do come up, so that we'll be able to really be focused on addressing those without having an issue and ultimately issuing the financial statements on time.

CHAIR COHEN: Next. You guys know the order. Come on. Come on. I don't need to call on you.

COMMITTEE MEMBER PALKKI: Thank you, Madam Chair.

(Laughter).

CHAIR COHEN: Yes.

COMMITTEE MEMBER PALKKI: This assignment requires the selected firm to test relevant assertions over CalPERS investment assets, and among other things requires an analysis of whether the investment positions are disclosed an fairly presented. As you may know, there has been some concern regarding transparency about investments and fees paid to investment firms. Please describe how you will evaluate whether CalPERS meets disclosure requirements.

BILLY KIM: Keith, do you want to answer this for us?

KEITH MILLER: Yeah. I can certainly take part of this. The major assertions over investments are whether they're correctly valued and whether they exist and CalPERS actually owns those investments. And then in addition to that, there are prescribed GASB, GAAP disclosures that the financial statements must include, that, among other things, includes a schedule of investments, which shows at a high level what CalPERS portfolio contains. And in addition to that, certain other disclosures as to the strategy and redemption terms for say your commingled fund investments.

And so, we use certainly a major experience in this area of having audited -- we audit over 4,000 different investment funds, which also have the same disclosure requirements, the same assertions as CalPERS portfolio. And that's in addition to the number of pension retirement accounts, State pension plans, and endowments, and other foundations, and other organizations that either were listed in our proposal documents.

And so, that experience is obviously vital to testing those assertions. But in addition to that, it's a number of checklists. It's a very prescribed workflow for audit steps, but all with the theme of coming back to those key assertions that I -- that I mentioned at the start of my answer.

BILLY KIM: And one of the things I will also note is we're always open to do some additional procedures, if it's focused on investment fees as well. And again, if that is an area of focus, that the Committee feels strongly about, we can always incorporate that into the audit plan as well.

The investment fees, as part of the financial statements that are included, we do look at them as well. But what I'm also saying is we could take a deeper dive, right, as needed, and that is definitely something we can always do.

COMMITTEE MEMBER WILLETTE: Okay. Thank you so much. My question is how does BDO plan to add value to CalPERS over the five-year engagement period? And then also, what emerging trends or challenges in public pension systems do you foresee and how is your firm preparing to address them on behalf of clients like CalPERS?

BILLY KIM: Yeah, I can take this. So in terms of value-add, our fees that we propose to you, it's not just limited in completing an audit, but it's part of our overall fees encompass the BDO experience that we're going to be delivering to you, and that does -- that does include providing value through the audit.

And so we're always willing and proactive to provide our perspective and -- on any matters that come up, on best practices related to accounting, internal controls, and then connecting you with specialized resources to share knowledge as well. And then offering up opportunities for educational updates, whether it's on regulatory or compliance matters, accounting pronouncement matters, and including Board education as well.

And these are all things that we've offered up to management in the past and made ourselves available as well, when needed. And we've also connected you to our specialists in certain areas. And those are some of the things we're going to continue to be doing. For instance, this past year, we provided educational updates specifically related to GASB pronouncements, where we brought in our national GASB leader - his name is Lee Klumpp - who gave updates to management during our kick-off meeting. And this is not just a one-time thing, but we've done it multiple times in the past.

And we brought in our project management expert also of the firm this past year, who holds Six Sigma Black Belt certification that assisted in facilitating a continuous improvement workshop between your management and the BDO team to really seek out any areas that we can continuously improve the audit coordination process, which then yielded actionable solutions as well as next steps that we actually implemented.

And so these are some of the things we'll continue to do. And, oh, on top of that, in terms of the specialists that we've also brought to you to share knowledge, including from a sustainability standpoint, we also brought in our sustainability expert to share knowledge with -- on the latest best practices regarding disclosures and reporting as well.

And on top of that, we've connected you with our health care regulatory compliance leader as well to share about relevant experience and perspective in that area as well with your management. And also, Steven here, and he can share a little bit more about this too, but he was also -- before he became the overall west region leader of the overall assurance practice, he is also the global health care leader of BDO.

And he was the founder of the BDO Center of Health Care Excellence and Innovation. And this is a center where we actually have health care leaders at BDO and also practitioners in health that perform research and studies, and issue thought leadership pieces, also hold webcasts. And these are individuals that also -- in terms of share this information to our clients.

And so, Steven actually directly met with your management multiple times, right, and sharing health care trends as well. And Steven, if you want to add to that.

STEVEN SHILL: Sure. Yep. Thank you. Yeah. So on a regular basis, I've met with Don Moulds shared, you know, health care trends, and experience that we're seeing in the -- in the industry. And I think that was the -- you know, the kind of one-on-one experience that was developed I think has created an ongoing -- an ongoing cadence between myself and your health care team. And I think that, you know, Obviously both sides have shared and benefited by the ongoing conversations.

Go ahead.

BILLY KIM: And then Kirstie, do you want to add to this question?

KIRSTIE TIERNAN: Sure. Around the emerging trends and the challenges. I mean, we all know this is a wild time to be in technology and everything that's happening around the technology side of things. So there's going to be a lot that's going to come up in the next five years and it's already here. And that's why I'm here with the team as that AI strategist to help you keep an eye on that and to help figure out what's going to be applicable and what's not, right? So we do a lot of, again, thought leadership, webinars, events just to help our clients understand what's happening in AI and make sense of it, and make sure that we're giving it that industry layer to make sure that you know how it applies to you, not just that it's coming or it's here, but that it's really relevant and useful information for you and the team.

And I think Sylvia, if you want to talk a little bit. Sylvia and I work together very closely, not only in how we're developing what we're doing for our clients, but then also how we actually apply that to the audit. So Sylvia maybe talk a little bit about how we are looking at AI and technology advancements within the audit.

SYLVIA MAK: Yeah. Thanks, Kirstie. So I think you know, Dipika and Keith kind of touched of some off these in terms of their current innovations, where we're using our technology to really better -- help us to identify anomalies and trends within data. We're also using it as well and we're continuing to develop it to help us with our risk assessment to better identify where the risks are, so that when we're doing our audit procedures, we're really being targeted in terms of what we're looking at. It's not like we're pulling a random sample and looking for a needle in the hay stack.

So our AI developments is really helping us to bring value to our clients to bring efficiencies as well. We know that CalPERS is very serious about continuing to build efficiencies. Our audit -- our audit is not static, so we seek ways every year to try to figure out, okay, how do we continue to improve on our audit quality while also to be effective and efficient?

And so, we're serious about sufficiency as demonstrated through our investments in our technologies, including our AI technologies as well. And that's what we will continue to bring in the future as well to help further enhance what we do and the service that we provide.

BILLY KIM: Thank you. Did you want to -- did you want to add something?

KEITH MILLER: Yeah. Just not to be left out from an investments perspective. You know, we certainly -- a large portion of your portfolio is marketable. And, you know, that's less challenging from the audit. But in terms of some of the commingled investments where you may be valuing the investment in good faith as an organization. You know, certainly we build upon the number of retirement plans, other asset management clients, investment funds who are holding similar assets. And it's a good opportunity for us to sit and look at what CalPERS is doing, and, you know, just offer the guidance of best practice there, answer questions.

Certainly, this last year, I've been helping the team at CalPERS with just some of the approach to leveling the securities for the financial statements and just providing some benefit of our experience across the number of clients. So on the investment side, there's a lot of ways we can help to ensure that, you know, the valuation is -- in particular is, you know, cutting edge and in line with where you want it to be.

CHAIR COHEN: All right. Well --

GREGG MILLS: Sorry, I just want to jump in there.

CHAIR COHEN: Oh, okay.

GREGG MILLS: I can just speak to it from my own littler corner of the world from the actuarial side of things. As Billy said, you know, we do a lot to make specialists available to CalPERS. And that has certainly been true in what we've been doing. So we've worked pretty cooperatively with the actuaries at CalPERS. And it's been a really iterative process of understanding what they're doing, offering some solutions on our end to improve, you know, whether it be their modeling or whether it be their assumptions. We've gone in and made some suggestions, many of which have already been adopted by CalPERS going forward to improve the already terrific job that they've been doing. So, it's been a nice partnership were the in-house actuaries at CalPERS, as well as the in-house actuaries at BDO.

CHAIR COHEN: All right. All right. We have just under 15 minutes left. Is there anything else that you want to say. We have no questions, but I -- we can move into follow-up questions, if you're open to that, Mr. Kim.

BILLY KIM: Yes. Steven, do you want to share some thoughts, then I'll close.

STEVEN SHILL: Yes. Can you hear me?

CHAIR COHEN: Yes.

STEVEN SHILL: All right. Well, there are a few other things that I wanted to just add. And that's -- as I shared with you when we met our opening marks, I am an executive sponsor. I'm your executive sponsor. And I want to explain to you what that means.

As your executive sponsor, I will be responsible ultimately for the relationship that BDO has with CalPERS. And that is -- that really permeates through everything that we discussed over here. But ultimately, what does that mean specifically?

First of all, it means that you get the best -- we ensure that you get the best talent that BDO has to offer, so you get the cream of the crop. Second of all, you get access, as we mentioned, to all our top resources. But what that means is you never, ever have to wait in line. Okay. You are -- our resources are subject matter experts, technical experts are available at your behest when you need them.

And then, in terms of project management, I think, you know, Dipika did mention well, you know, these are the things that we specifically do in order to keep the engagement on track. The client relationship team will operate alongside the engagement team to ensure that you get what you need, and that you have a client experience that we expect of ourselves with respect to you.

That will involve regular check-ins. And I think that that's something that's important. And the client relationship team also has the ability to make adjustments, if need be, to ensure that deadlines are kept, deliveries are delivered, and everybody is happy.

And then last, and probably most important, as a board member and a fellow board member over here next to me, we also have access to our senior management and our executive team at the highest level, should you wish to have conversations with them. So that includes our CEO, our Chief Operating Officer, and so on and so forth. And that is, I think, extremely valuable to you and we hope that this really distinguishes us as an organization serving CalPERS.

CHAIR COHEN: All right.

BILLY KIM: And I have some last remarks as well. You know, as mentioned earlier, we believe that BDO is the right firm for you. And this is because we believe we're best positioned to build upon the trust we've established with you over the past six years, especially again as we navigate this era of rapid technological change.

And so I did want to just summarize, you know, the reasons that we believe that support this. You know, we have a proven team, who's consistently delivered timely audits for you with unwavering dedication and professionalism, and with a continuity among key members of the team, that includes mice, Dipika, and our managers, all of which, by the way, have multiple years in serving you.

And for an organization as large and complex as CalPERS, continuity in your audit teams is essential for audit quality, for efficiency, ensuring that the right risks are focused on, and that audits are done on time without much disruption to management's operation. And you'll receive that from BDO.

Second, we have a distinctive client service approach. I mentioned earlier about actively listening to you as a Committee, to management, to the members, and hearing a perspective, specifically on risks, concerns, feedback, and then adapting and tailoring our audit plan, our risk assessment to address them and to, in turn, we believe, continuously improve the audit experience and the process.

And to further add value to differentiate ourselves, we decided to also add our project management expert that I shared about early on to the team into our proposal, and specifically so that he continues to be involved as a direct resource to the team ensuring that we're utilizing the latest project management best practices throughout our engagement with you.

Third, we've talked about the robust experience that we have, and including an IT security, which we believe sets us apart. While all the firms that you're considering, you know, have experience auditing public pension plans, however, none can match the years of direct experience that we have in serving you, which we believe is the most relevant experience.

Why is this? It's because of the fact that you are the largest public pension plan system that exists in this country, and arguably one of the most complex with different fiduciary funds that you have, and also all the health plans that you have, and the long-term care plan that you have. You're not just a public pension plan system, but you are also a health care organization.

And our team will continue to bring the right mix of multi-disciplinary experience and expertise to the table. We have specialists, right, from not only in the employee benefit practice space, by the way, which is one of the largest amongst the firms, but also, as Keith had mentioned, our investment professionals, we also -- our actuarial specialists, our GASB specialists, and also our health care specialists to you.

In addition, I've noted earlier about cybersecurity. Cybersecurity is a top priority at BDO and will continue to be, which is supported by the fact that BDO is ranked number one among the other firms. And then fourth is we're committed to innovation. You know, we've talked about that. If you look back in the past five years, we've incorporated the use of data analytics, automation into our testing to enhance quality and efficiency in our work.

And this actually contributed to actual reduction in ours for each year. And this was actually a commitment that was included in our proposal five years ago that we have successfully met. And we will continue to be focused on innovation, which is backed by our commitment of the BDO network of over a billion dollars investment over the next five years in the latest technologies in AI for audits.

And this also explains why we have reduced the overall fees that we have provided to you compared to the last five years, and that is because we truly believe that we continue to -- can continue to become even more efficient with the use of technology going forward.

And the fifth, we'll continue to connect you to our specialists and share knowledge with you. I've shared about that already in terms of how we're going to be continuously value -- providing value-added perspective and sharing knowledge with you. And part of the reason why we have Kirstie on the team is because of the fact of AI being such a prevalent, prevalent focus as we look forward to the next five years. And she will be directly available to you as well.

Sixth, Steven had mentioned this as well, but we will continue to provide direct access to our firm leaders, and not just one firm leader but two is currently on our team to serve you. And Steven, as executive sponsor, alongside with Hitesh, who is in the audience - he's our relationship manager - they will ensure that you receive best-in-class service and accountability. And Steven and Hitesh have been in contact with your leadership and will continue to do so going forward.

And I just want to just say that, you know, one of the things that we always keep in mind when we serve our clients, especially in CalPERS, is our BDO purpose, which is helping people thrive every day. And this is the mindset that we have in serving you as a client and also the millions of members that count on this organization.

And it's been an honor and privilege to serving CalPERS and its members for the past six years and we're motivate and super excited for the opportunity to serve you again for the next five.

So thank you.

CHAIR COHEN: Thank you very much. I appreciate that. I personally feel like you're speaking my love language with all the things that you deliver.

Now, something was said, I think, Steven, you might have said it, that really piqued my curiosity that I want to follow up with, okay?

So I'd like you to -- I'd like to ask about the ESOP and how that decision came about. And obviously, it's important to you, because you highlight it. I want to know why or for what reasons it's important to you.

STEVEN SHILL: I mean, yeah. There we go. Yeah. No. Thank you. Thank you for bringing that up and I'm glad that you did.

So as I mentioned in 2023, we became an employee stock ownership organization. So that means that each and every one of our employees are really owners of our organization. And why that's -- why that decision was made was because just like, you know, all industries, there are trends that have occurred and are continuing to occur. There are certainly changes in ownership in the industry. Many of our competitors, many of the firms in the -- in -- accounting firms have selected sponsors that are private equity sponsors and other type sponsors. Our decision to go ESOP was really to -- for two reasons.

Number one, we wanted to remain -- first of all, we want to remain attractive and competitive to the -- to the labor market, to our professionals that we seek to attract. And so, really to give them something that was of value, but at the same time instill a level of accountability in each and every one of our professionals, at the same time provide some competitive compensatory type structure that, of course, you know, many of our competitors were providing.

The second thing that was really of vital importance to us over there was really a commitment to equity and inclusion, all right, to ensure that each and every one of our individuals and professionals participate in the success of our firm. And, of course, that level of accountability is not just beneficial to BDO, but is beneficial to our clients. A lot of that -- probably one of the biggest results of the ESOP is a much lower level of staff turnover at our firm. People want to work for

BDO. They want to be associated with BDO, because they want to do the right thing and are consequently compensated for it.

And so our staff turnover obviously is of benefit to us, but is a benefit to you as an organization also. So we think -- okay. I got it.

CHAIR COHEN: Thank you. Only, because there's another question.

STEVEN SHILL: Okay. Got it.

CHAIR COHEN: All right. Thank you. I appreciate that.

Mullissa.

Oh, sorry.

COMMITTEE MEMBER WILLETTE: Thank you. I just want to thank you first for the proposal, the thoughtfulness that went into it. Thank you all for being here and your interview. I appreciated the reminder of all the six years that's been gone on with CalPERS. And I liked the looking forward that we've taken -- the approach that we've taken today. But I want to ask you, you have a unique opportunity to look back on the six years, and what are -- what has been -- were some of the biggest challenges working with CalPERS?

BILLY KIM: Yeah. I think overall the first year was definitely a challenge, you know, not knowing your organization. Coming in, we only have a five-month runway to get everything done, raise an army of a hundred people to get that audit done. And it was very challenging. Just so many different pieces that are involved in your audit, including the GASB 68 and 75 reports, which we haven't talked much about, but there's a whole lot of work that is involved in that as well. So those are very challenging -- those challenging times.

But the other thing I note, looking back it's just the volume of just the different contacts that are involved and just ensuring that we're trying to get all the right things that we need for the audit has been Challenging, but that's something that with, you know, our mindset a continuous improvement, you know, and something that I truly live by. But we -- every year, we've been making significant improvements in that area.

COMMITTEE MEMBER WILLETTE: Thank you.

CHAIR COHEN: Ramón.

COMMITTEE MEMBER RUBALCAVA: Thank you. That was one of my questions, because you mentioned in your cover letter that every subsequent year there was unique challenges. So, I just want to finish up with another question. I guess this is to Greg. You made a suggestion -- you made a comment that you have made suggestions on the actuarial assumptions. Can you tell us what those suggestions were?

GREGG MILLS: Sure. Absolutely. So, thinking specifically, one example would be in the Long-Term Care Fund. Obviously, you know, the financial viability of that fund is crucially important. One area that we felt that they could improve their modeling was there's an opportunity for members to have a reduction in benefits or a change in their benefits. We thought that they could build out some of the assumptions they were making around what that would do to steerage and selection from those members. So we did make that suggestion and that's something that CalPERS has now taken into account and is building into their models to make them a little bit more robust.

COMMITTEE MEMBER RUBALCAVA: Thank you.

CHAIR COHEN: All right. That looks -- wait. There is another question. Jose Luis.

COMMITTEE MEMBER PACHECO: Thank you. Thank you, Chairwoman. And thank you very much for your presentation.

My question is basically back to -- first of all, I want to thank you for all you've done for us for the last six years. And I think it's been an incredible journey for both you and I and for the whole system.

My question is on the internal controls. I want to know that in your -- in your journey with us, have -- has the internal controls evolved? Have you added more internal controls, more systems in place and more processes? And also, how did you -- how have you developed the process or the procedures to determine what particularly items to sample, especially around the investment side.

Thank you.

BILLY KIM: Sure. I'll take this and then, Keith, if you want to add on.

Okay. So, in terms of internal controls from a management perspective, right? So, as -- since we started the audits over six years ago, we've had control recommendations that we've provided formally to the Committee for five of those six years actually. And so with the result of that, you know, there have been some impact and some remediation and new controls that were in place. There are also certain things that did take place including on the dormant accounts area, which also management had put into place. And then we, too, ensure that we provided our perspective on that as well, and to ensure that the controls that were in place were designed effectively as well. And those were some of the things we actually specifically looked at a couple years ago and we continue to look at.

Now, as it relates to investments, you want to share?

KEITH MILLER: Yeah. I mean, a couple come to mind quickly. Controls over understanding the pricing inputs to the fixed income portfolio comes to mind, and just a process there for ensuring that that data is correctly and efficiently used to determine the level of the securities between the level 1, 2, 3 classifications for the financial statements. That's certainly something that has -- that has been increased and looks strong. And then just really in terms of collecting information for some of the more esoteric fund investments and private vehicle investments to be very quickly aware of the data that CalPERS receives, whether they receive audited financial statements, the exact means by which the investments are valued. And all of that comes together as an enhanced process for CalPERS to much better understand the nature of each investment, which leaves them well positioned in terms of their understanding of it, but also in terms of working with us to make that part of the audit a lot more -- a lot more efficient and streamlined.

COMMITTEE MEMBER PACHECO: Thank you for your questions and answers.

CHAIR COHEN: All right. Seeing that there is no one else in the queue, I think this concludes the interview. Would you like to -- I'd like to thank you as representatives from BDO. I want to thank you for your time, and -- today. And I'd like you to -- ask you to please leave the auditorium.

Wow, that's -- we should make that a little nicer.

BILL KIM: Thank you, Madam Chair.

CHAIR COHN: Get out. Thank you.

(Laughter)

BILLY KIM: Thank you, Committee.

CHAIR COHEN: All right.

(BDO left the auditorium.)

(Crowe entered the auditorium.)

CHAIR COHEN: All right. At this time, I'd like to invite all representatives from Crowe, LLP to present. Please come sit in the front seats.

All right. So welcome you all back again. My name is Malia Cohen. I'm the Chair of this Committee. I'm also the State Controller. And, we welcome you. We're looking forward to hearing your presentation. Your firm was asked not to view the interview that preceded you. Can you confirm, to the best of your knowledge, that your firm did not view that interview?

JOHN KURKOWSKI: We confirm that we did not.

(Slide presentation).

CHAIR COHEN: Thank you. I appreciate that confirmation.

Crowe, thank you. And you will have five minutes to make your opening remarks and then you will then proceed with a 45-minute question and answer. Each one of us have a question for the panel. All right. You may begin.

JOHN KURKOWSKI: Madam Chair Cohen and members of the Risk and Audit Committee. Good morning. I'm John Kurkowski, managing partner of Crowe's audit practice. On behalf of our Crowe team that's here today. Thank you for the opportunity to present our credentials to serve as the auditor of CalPERS. For over 80 years, we've provided the highest quality services to our clients, services delivered by great people, highly specialized in the industries they serve, and who consistently provide an exceptional Client experience.

Today, Crowe audits two of the five largest public employee retirement systems in the U.S. and over 250 governmental retirement plans. From the breadth of this experience, we've assembled an outstanding team to serve CalPERS. I want to start with -- go to the next slide, please.

I'll just start with three of my partners here today, Kevin Smith, Dan O'Malley and Kathy Lai. They have significant experience serving numerous government pension systems. They're active contributors to our profession serving key roles in various AICPA and GASB committees, and they're frequent speakers at industry conferences. They're well respected for the leading insights they provide to their clients. CalPERS will be very well served by this team.

KEVIN SMITH: Thank you, John. Madam Chair. My name is Kevin Smith and I would serving as your engagement partner. I'm honored today to introduce the key team members of our engagement team. Each of their names and the proposed roles are listed on the next three slides.

Next slide, Danielle.

I look forward to letting you meet each of them throughout the Q&A. We are also joined today by our national office public sector partner, additional team members, our PERS leadership team, as well as other members of audit management. They're all here today as a demonstration of just how important CalPERS would be to Crowe.

The key team members with you today here have over 250 years of combined experience and have been assembled based upon their unique skill sets, which spans over governmental or GASB reporting, investment valuation, actuarial sciences, information technology, and the insurance industry.

We've built this team for one key reason, to deliver the highest quality of services to the RAC.

Next slide.

KATHY LAI: Good morning. I'm Kathy Lai and I'm your proposed concurring review partner. And in addition to that, I also serve as the California market leader for Crowe. On behalf of our CEO, Steve Strammello -- he sends his regards. He's traveling internationally today. But he asked me, as the California market leader, to underscore our firm's deep commitment to California.

Recognizing the size of our great State's economy, Crowe has delivered decades of service to more than 1,500 California-based clients, including nearly 200 State and local governments, many of woman are your very own stakeholders as contributing entities to CalPERS.

From our work at various State agencies in Sacramento, to our audits of the 60 plus local education agencies, including the top three largest within the state, K through 12 districts and community college districts, to our engagements with the five largest cities in California, and the largest transportation agencies in both Northern and Southern California, we know your stakeholders.

On the next slide, you'll further see our tangible investment in California with our five offices statewide. We've got two down in Southern California and three up in Northern California, including our Sacramento office, which is just down the street. Our team of government auditors are highly accessible to CalPERS and we're very excited to have the possibility of serving on your audit.

DAN O'MALLEY: Good morning. I'm Dan O'Malley. I'm your proposed engagement partner. I'm really excited to be here talking to you about Crowe, because I think Crowe and CalPERS values align. We're both focused on a sustainable future. At Crowe, we do that through our values. Care, means we understand the importance of our audit to you and your stakeholders. Trust means we lead with integrity and report with transparency. Courage means we're going to be honest, regardless of the message. And stewardship means we understand our role in safeguarding the future.

Our purpose and values drive a high level of employee satisfaction leading to lower attrition rates as well as workplace accolades. That means for you, we're going to be able to provide consistent staffing throughout the contract when serving you. We design our teams deliberately. We bring the right expertise to serve you. We keep stakeholders informed knowing we've worked with management but for the Audit Committee. And through that, we deliver a high level of client satisfaction and we believe that's because we deliver competence. And throughout the rest of this Q&A, I hope we can show you how we will deliver that same confidence to you, if you select us as your next auditor.

CHAIR COHEN: All right. Great. Thank you very much. We are now going to transition to the second portion where we have six questions for you, so you're going to have to manage your time accordingly.

All right. I'm going to start with the first question. The first question is pretty simple. What specific expertise does your firm have in auditing public pension systems with complex investment portfolios? And the second portion is, can you share examples of innovative solutions or insights you've provided to clients like CalPERS.

KEVIN SMITH: I think our experience demonstrates that we have a unique skill set in performing audits of large complex PERS similar. And I use the word "similar" intentionally. CalPERS is the largest in the United States. Your investment portfolio is complex. The actuarial side is -- of the house is complex, but we audit two of the next four largest pension plans for trust. They have similar investment strategies. We've developed our audit programs and the procedures we perform directly related to those. From that, we've developed a unique skill set in trying to deliver both an effective and efficient audit, as well as delivering high value-added services.

Dan.

DAN O'MALLEY: I'm going to tell you a little bit about -- more about myself. I love this question, because I have two passions, serving public employee retirement systems and technology. And I've been fortunate throughout my -- through my career, but I'm supported at Crowe in both. I serve two of the five largest public employee retirement systems, but I also sit in our audit transformation group as a leader, where I focus on innovation and brining tools and technology to the audit.

Through my experience in auditing large employee retirement systems, we understand the complexity of your portfolio and have audited investment portfolios with allocations similar through -- to yours. Through that, we understand that there are two primary risks, existence and valuation.

For existence, we're going to confirm directly with your custodian as well as your investment managers for the alternative investments. For valuation, we're -- there's -- we're going to bifurcate the population and address the risks separately, because your Level 1 and Level 2 securities, your publicly-traded stocks and bonds have a lower degree of risk for valuation than your harder to value assets -- investments.

For the publicly traded securities, we have a -- we have a pricing list that tests over a hundred thousand securities annually through our PERS practice, through our bank financial institution practice, as well as our foundations. We -- for the alter alternative investments, we take an approach where it depends -- the structure of the investments drives our response to the risks. So if it's in a fund structure, we have a center o excellence and I'm going to hand it over to Erin soon, but if it's a direct investment where the pricing is through an appraisal, either because it's directly in a company or real estate. We also have specialists that look at the valuations and the appraisals.

And, Erin, I'm going to turn it over to you to talk a little bit more on your role in auditing alternative investments.

ERIN BARNES: Sure. Thank you. I'm Erin Barnes. I'm a senior manager at Crowe. I've been here my whole career, 17 years. And during that time, I have led the Alternative Investments team. We specialize in alternative investments. It's a centralized team at

Crowe. And as part of that, I helped write Crowe's internal audit manual chapter on alternative investments. And that audit manual covers all of the alternative investments and we test all kinds, private equity, private real estate, private debt, hedge funds, infrastructure funds, all types of alternative investments.

And we test alternative investments for all industries across Crowe, including public retirement systems, as well as a lot of foundations and institutions of higher education. And across all of the industries that we test, my team audits well over a thousand alternative investments every year. So we see all types of fund structures all types of fund strategies. And we have a lot of knowledge and experience in the area of auditing alternative investments.

KEVIN SMITH: Madam Chair, just one quick follow-up. You asked about guidance as well. So we really believe one of the key areas that we have provided deep benefit to our clients and as it relates to alternative investments is it surrounds kind of two elements, internal controls, particularly as your strategies change, as you go into side-by-side investments or direct investments, understanding what management is responsible from the investment valuation, what policies, and procedure, and controls that they have to have in place for them to be able to assert that their value is collect.

We've also guided other clients on the development of the abilities to estimate that change in fair value for their alternative investments in that last final quarter log from 3-31 to 6-30. So really, it's about understanding our clients as well as the best practices we've seen from other clients in bringing those to bear.

Hopefully, that's answered your question.

CHAIR COHEN: Yeah, absolutely.

Next question is going to come from David.

VICE CHAIR MILLER: Explain the process you will use to select samples to assess active member census data. And as a follow-on, describe the risk-based approach you intend to use to test the census data reported to CalPERS for PERF B and C. For reference, this is described in item number two on page three for the RFP.

KEVIN SMITH: I'm glad that you distinguished between PERF B and C versus A. -- census data testing for A. Just to back up very quickly, we will be issuing an examination report assuring that the users of the financial statements that you have policies and procedures in place to address that actuarial valuation. And then ultimately the user auditors are responsible for testing that census data.

As it relates to PERF B and C, those would be considered the cost-sharing plans and our strategy will follow the guidance developed by the AICPA at the beginning of the implementation of GASB 67 and 68. Ironically, we had two partners sitting on the AICPA task force that helped develop that chapter, Kathy and myself. So we're very familiar with the strategies both from an internal control standpoint and the sampling.

As part of developing our RFP, we've already went through and taken the information to lead us to believe how many -- how many school districts and/or LEAs are contributing entities, if you will, because PERF C is different, so contributing entities and developed our sample. And that was really kind of one of the bases for developing our proposal was knowing how many different contributing entities we'd be testing.

We also presume a strong set of internal controls, which we will understand both test of design and operating effectiveness over management's ability to identify significant errors within the census submission.

We also use Exchange, which is a proprietary-based information to interact individually with each of those contributing entities, ensuring that the information that they provide is secured directly to us.

We believe, based upon our work with many other PERS, we have just as -- we have the most effective 67 and 68, as well as 74, 75 policies in our system in place.

CHAIR COHEN: All right. Next question, Jose Luis Pacheco.

COMMITTEE MEMBER PACHECO: Thank you. The RFP states that the selected firm will obtain and evaluate the actuarial experience studies and evaluations made by CalPERS staff as they affect the financial statements. Describe your approach for evaluating the studies and evaluations. What will your criteria be for determining how these studies and evaluations might affect the financial statements? Thank you.

DAN O'MALLEY: That's a great question and I'll start off and then I'm going to pull in one of our actuaries to discuss as well. The actuarial valuation has a significant impact across PERF A, PERF B, PERF C, as well as many of the OPEB and proprietary funds. The actuarial valuation is an estimate and they are vastly different depending upon the nature of the organization. And that can even be different between the agent multiple, the cost sharing, the OPEB and the health insurance, not to mention the LTC.

We think we've put together a very strong team led by our own internal actuary, but we said We've got to supplement this, based upon the size and scope of CalPERS. So we've actually asked two separate actuarial firms, one of us with this today GRS, who focuses 100 percent of their time and commitment on public employee retirement systems, so I'm going to ask Alex to discuss how they view the impact.

ALEX RIVERA: Thank you, Madam Chair and members of the Committees. With respect to the actuarial valuation process, specifically evaluating the assumptions set, when we review a system, a system such as yours, the size and the magnitude, one, we want to make sure that the actuarial valuation assumption is by key group. And in this case, it would be the different PERF plans that each set of assumptions could stand alone and is expected to produce a reasonable set of contribution rates, and also the development of the actuarial valuation. So we look at guidance in the actuarial standards of practice when we evaluate the selection of the assumptions set.

Now, I understand that with CalPERS, they look at an extended period of experience, which is fine. We generally would want to look at a sampling of the experience study and ensure that it is consistent with the model. So, we'll, for example, look at experience and make sure that the assumptions set is producing stable contributions. So that's one of the key functions of --

would be -- of our review. So consistency, stability and making sewer that it's consistent with actuarial standards of practice.

CHAIR COHEN: Next speaker -- next question.

COMMITTEE MEMBER PALKKI: Thank you, Madam Chair. This assignment requires the select -- the selected firm to test relevant assertions over CalPERS investment assets and among other things requires an analysis of whether the investment portions are disclosed and fairly presented. As you may know, there are -- there has been some concern regarding transparency about investments and fees paid to investment firms. Please describe how you will evaluate whether CalPERS meets disclosure requirements.

KEVIN SMITH: Thank you. First and foremost, the disclosure requirements will be compared to Generally Accepted Accounting Principles. To the extent that the GASB is addressed both evaluation as well as how investment expenses are required to be reported, we're going to ensure that that disclosure occurs. We can also bring to bear other large pension plans and how they have disclosed. There is actually one or two of our clients who disclose, for lack of better words, the retainage, if you will, from the private equity fund, and they include that as investment expenses versus netting investment income. We'll have those discussions with management.

We'll understand their system and processes for identifying investment expenses, how those are tracked, how those are reported, are they in compliance with Generally Accepted Accounting Principles, and conclude.

Dan, do you have more?

DAN O'MALLEY: Yeah. With regards to addressing the assertions, again that goes down to risk assessment. So if it's a publicly-traded security, it's going to carry a different risk and we're going to be focused on existence and valuation. But part of what's not said is the disclosures as well. So our procedures are designed when we're performing our sampling at the -- in -- at the GASB 72 level disclosure. On top of that, we have developed analytics that support our testing and sampling of investments.

We've worked with State Street. We've worked with Situs who's your real estate consultant. We've developed custom analytics that allows us to address whole populations and identify outliers. That means we're able to perform an efficient and effective audit and we'll still pair that with audit sampling over the alternative investments as well as your publicly-traded investments.

CHAIR COHEN: Okay.

KEVIN SMITH: Does that address your question?

CHAIR COHEN: Yeah.

Next question.

COMMITTEE MEMBER RUBALCAVA: Thank you, Ma'am. As described in the RFP, there are specific requirements regarding the timely completion of all audit work. How will you manage the project to ensure that your firm meets all deadlines? Is -- if there is a risk of not meeting deadlines, what steps will you take to both inform CalPERS management of the risk and what steps will you take to mitigate such risks.

Thank you.

KEVIN SMITH: I think the first step in that process was to understand your RFP and the deadlines established within those. We did an extensive process of developing our budget, understanding capacity within the firm, particularly by industry experts, and understanding that they had the capacity to complete the engagement on time in a quality manner. We believe that has occurred. But to steal a line from Mike Tyson, everybody has got a plan until they're punched in the face.

Audits can be hard. We recognize that timelines can slip. We believe in communication throughout the engagement and that can be with the -- with management. If significant, we also ask to speak to the audit -- or the RAC chair. We believe -- we always come back to this fundamental belief that we work with management, but we work for those charged with governance.

One of the things that we believe makes Crowe a little bit special or unique is an incredible investment that we began 15 years ago in our client portals and continue to evolve those. But our client exchange that Danielle is going to be mentioning here in just a few seconds is one of the key elements and us making sure that we are on time. It's not just a -- and that all PBC requests are submitted and that they meet what we've asked for. But it's more than a drop box. It's more than an exchange site. It's really about project management, which for something the size of CalPERS is absolutely incredibly important.

Danielle.

DANIELLE SHRIVER: Thank you. So one thing I want to just quickly explain is our client's relationship with Exchange and what it means to them. So I currently serve as a client experience ambassador for the past year. And basically what that means is, you know, earlier in the slides we showed surveys that were sent out to the clients. So, whenever they fill those surveys out, they have opportunities to call out individual team members that have provided excellent service. So, I was one of those team members and was nominated, and through that ambassador program, I am actually currently conducting a study within our firm to see what are the common denominators? Why are the clients saying we provided such great service whenever it has happened? And I can tell you every single one of those comments has listed Exchange at some point in the survey response.

So, very quickly, Kevin alluded to it. Exchange has numerous capabilities. I won't have time to get into all of them. But a couple of the heavy hitters here would be -- and I'll start with our clients' favorite and that would be prior year document retention. So this, of course, will start paying dividends in year two going forward. But essentially, once we get into the year two audit, everything that was uploaded to the site the previous year will roll forward. And your members of management will be able to see that, and that helps them in multiple ways.

One, they don't have to remember everything that ended up working for the audit. They can simply look at the portal, see what was provided last year and re-upload that again, but it also allows them to get other members of the staff involved. If a lower level staff has ability to pull that report, they can assign that request to that person and save them a little bit of the legwork in pulling all of the audit requests. So I think that's a huge thing that I definitely don't hear all firms having within their portal that our clients really appreciate.

The next, I believe was alluded to earlier. We can create additional subsites, so when we do gain that information from your employers, they will go and be able to log in individually, submit their information. And I bring that up again to say that they're not going to be able to see everything else that was submitted by CalPERS. They have their own portal. And so it just provides an extra level of security on multiple fronts.

To give an idea of what this portal looks like, each piece of information that is requested has an individual request. Within that request, we can actually communicate about it, so it has a comment section. We can return the request asking, you know, hey, this report was ran in May. We maybe need it in June. And that allows all the conversation to be centralized and secure.

So, less emails just solves a lot of those issues and everyone is on the same page. And on the same lines of privacy, we can actually make any request private, so that only the owner of that request can see the information submitted. So just an easy example, of course, is always anything related to payroll. You usually only want one person to see that and that privacy setting allows that.

So, I think exchange definitely sets us apart.

One example. I work on the Texas Department of Transportation for the first 10 years of my career, and they actually ask that we create a specialized numbering system for them, because they wanted to use their own internal language to help identify requests easier. And we were absolutely able to accommodate that. We have done the multiple employer sites on South Carolina Retirement System that I've been on the last four years and it has gone seamlessly. So I think CalPERS management would really appreciate and enjoy working with Exchange.

KEVIN SMITH: You know, in summary, I'd also go back to something that Dan had said. We deliver the message truthfully and timely no matter what that message is, if management is behind or heaven forbid we're not fulfilling our responsibilities.

The other thing that I will commit to you right now, I'm going to put somebody on the spot, but the gentleman to my right is my boss. And I'm going to tell you, Madam Chair, as well as the CFO and anyone else behind me, they have direct access to John. And he's -- you know, one, he can rattle my chain in a meaningful way, and two, he's responsible for about two thou -- or two million audit hours on an annual basis. So what's your commitment, John?

JOHN KURKOWSKI: Yeah. No. we meet our

deadlines and our commitments to you. And as you've heard from our team, you know, when things -- if something is going to go off track, we're going to make sure it gets back on track. And my commitment to this team to you is that, you know, if there's things we've got to do to change out resources, bring in more, you'll have them. This is -- you will be a very significant important client to Crowe, to me, and I assure you you'll get the right support.

CHAIR COHEN: Thank you.

Okay. Next question.

COMMITTEE MEMBER WILLETTE: All right. Thank you. So how does your firm plan to add value to CalPERS over the five-year engagement period? And then also, what emerging trends or challenges in public pension systems do you foresee and how is your firm preparing to address them on behalf of clients like CalPERS?

KEVIN SMITH: I think there was about three questions in the final question.

(Laughter).

KEVIN SMITH: So I'm going to have everybody on the table keep me honest and make sure that we address each one. But I think we bring value to our clients in a couple of ways. First and foremost is our understanding that your management team are doing a few important things on a daily basis, trying to meet that long-term rate of return, trying to beat the market, trying to make sure the beneficiaries or members are paid. You guys doing are incredibly important work. We recognize that although the audited -- audit is also incredibly important, it's in addition to their day job, so our ability through Exchange, as well as our deep technical resources.

We're going to have to learn CalPERS. We've spent a significant amount of time trying to develop that understanding. But what I can commit to you is that we know the industry. You don't have to teach us the industry. You don't have to teach young people how to audit a PERS. So the first benefit that we're going to bring to you is an ability to focus on our daily tasks and keep the audit going versus shifting from one to the other.

The second is because we see so many large public employee retirement systems, we believe we can bring best practices to bear. So through recommendations, again going back to the something we've echoed a couple times now, open and honest communication, we deliver messages, both good and bad. I think as an auditor, my job is to call balls and strikes. It is what it is, and it's incredibly important. And we find that our clients appreciate it, because, one, we don't treat it from a gotcha standpoint. It's all about a continuous improvement, both from our lens as well as yours.

When I think about what's challenges, or innovations, or et cetera, and I'm going to tee up two and then I'm going to ask Dan to tee them up, but I think we're embarking on an incredible 10 years as it relates to what does the investment markets look like, as well as the volatility. We're not your investment advisors, but we have to audit through that and be able to adapt to your responses.

The second thing I'd ask him to address is artificial intelligence. It's the 800-pound gorilla in the room when we talk about what is -- what are our clients and ourselves facing.

DAN O'MALLEY: I'll start with the second item that Kevin teed up with artificial intelligence. So through my transformation role, I am one of Crowe's representatives at the AICPA Center for Audit Quality AI Task Force. And they're focused on understanding AI and helping auditors and entities navigate AI implementation.

So through my membership on that task force, I have firsthand purview into what's being discussed. There are risks with implementing AI, and, you know, from a governance structure, making sure you have the right governance in place. And then understanding how to measure the ROI of if you are going to tackle -- implement AI, how do you measure that? As well as once you implement it, what controls need to be in place?

And if selected as your auditor, my role in that committee, I'll be able to educate the Board, as well as work with management and tell them best practices that are being discussed. Obviously, I can't advise as an independent auditor, but I would be able to provide teachings and learnings to management.

The other question is is the change to the investment landscape. We know asset liability studies is part of what drives how you're going to decide to allocate for the future. In the past, we've seen some of our retirement systems implement new asset classes, because they feel that that's necessary to meet their returns and safeguard their investments. We've also seen implementation of new leverage, because it will help them navigate the volatile markets. We've also seen them expand the use of leverage to other asset classes, because they feel that that's what's necessary to have the liquidity necessary to cut checks to your members, but also meet their returns.

So, through that experience, we can't predict the future, but we know that we've audited entities that have gone through changes. Obviously, there's a lot of volatility and changes that are on the horizon. And through this team and our experience, I'm confident that we'll be able to add value to your -- to your organization.

KEVIN SMITH: I think there were several questions embedded within your question. Did we hit each one?

COMMITTEE MEMBER WILLETTE: Yes.

CHAIR COHEN: Okay. You have 19 minutes to share any other information that you want to share with us. And I wanted to check. Colleagues, do we have any follow-up questions?

Okay. We act -- well, let's -- if you don't mind, we'll go ahead and jump into the follow-up questions. Mr. Rubalcava.

CHAIR COHEN: There you go.

COMMITTEE MEMBER RUBALCAVA: Thank you. In looking through the resumes - thank you for the presentation - I note that your consultant actuary -- consulting actuary or consultant actuary states that he has some experience with State of California retiree health care benefits program. Mr. Rivera, can you explain what -- what was the service that you provided to the State of California retiree health care benefits program? What was your experience there, please?

ALEX RIVERA: Yes, sir. And we perform the annual OPEB actuarial valuation report for the State of California retirees. And we actually prepare that report for Madam Chair Controller Cohen for her team. And we evaluate not only the financial statement information under GASB 74 and 75, but we also provide actuarial valuation services with respect to the funding policy to ensure that there is some progress being made towards the prefunding of OPEB benefits.

And, so far, there is some, you know, good progress on the funding of OPEB benefits. Now, that report, it relies on a significant amount of information that CalPERS actually administers, and I'll give you an example. So, the census data that goes into the OPEB valuation is based for the most part on census data that's maintained by CalPERS. So we're familiar with CalPERS data process, and we do have a relationship with a few members on the CalPERS team.

Secondly, retiree health care valuation depends on an estimation of future health care costs. And those health care costs are based on the plans that are administered by CalPERS, the health care plans. So, for example, PERS Gold, PERS Platinum and all the HMO plans, we look at that experience and those premium rates to develop per capita costs that goes into our valuation system.

So as part of our valuation process, we're -- we do look at CalPERS assumption set for reasonableness when we perform our OPEB valuation. So we do have some experience with CalPERS pension valuation reports, experience study, and health care rating processes, and philosophies.

KEVIN SMITH: If you don't mind, I'd like to add just a 15 second follow-up.

CHAIR COHEN: It's your time. You have plenty of time.

KEVIN SMITH: Perfect.

CHAIR COHEN: You can take more than that.

KEVIN SMITH: We were obviously aware of that. We included that within the resume, but that was also discussed with our national independence office. So I want to make sure everybody understands that this is not a prohibited service. We believe that it does not impair our independence in any shape or form. In fact, I think it makes us better suited to serve CalPERS as well as the State of California on a go-forward basis.

Are there any other additional questions before --

COMMITTEE MEMBER RUBALCAVA: Madam Chair, can I do a follow-up question?

CHAIR COHEN: Please.

COMMITTEE MEMBER RUBALCAVA: Speaking of -- I didn't mean to say there was any conflict, but speaking of something that is interesting sort of, not a conflict, but how would you say you see this project with CalPERS different than your work with CalSTRS?

KEVIN SMITH: Can you perhaps ask -- or add a little to your question. I'm not quite for sure I understand.

COMMITTEE MEMBER RUBALCAVA: Well, your cover letter mentions that you have -- your team has experience with CalSTRS.

KEVIN SMITH: So one of the first things that we did -- and remember, I talked about making sure that we could fulfill your timeline with the quality client service -- or with the quality -- audit quality that you expect. When I first brought the opportunity to John and said, hey, I really am interested in performing this, one of his first questions is, one, do we have the capacity? And by capacity, can we serve our current clients, because we don't go looking for new clients, if we can't take care of our existing clients.

So we made sure that both California State Teachers Retirement, State Board of Administration for Florida, State of South Carolina's PEBA all with June 30 year-ends. We made sure that their timelines, their capacity, and their teams were needed -- or would be met and we could fulfill our responsibilities to you.

We are 100 percent confident that we're going to deliver to you exactly what you've asked for and our other clients are not going to notice that absolutely anything has changed.

We have supplant -- or supplemented this team with people who have experience from each of those. We have made sure that each team of -- from current clients remain in place. So we have a few people who can do both, but the vast majority of our clients will continue to be served by unique individual teams, but we believe, both from a risk -- mitigation of risk as well as efficiencies for you, it would be crazy not to use some of the same team members, but it was all done deliberate to ensure that each engagement is taken care of.

COMMITTEE MEMBER RUBALCAVA: Thank you.

CHAIR COHEN: Jose Luis.

COMMITTEE MEMBER PACHECO: Thank you, Madam Chair. First of all, thank you very much for your presentation. I want to go back to the comments that were made regarding the alternative investments. And I believe one of your colleagues mentioned about the audit manual that she had created and how that evaluation. And I wanted to also understand what are the internal controls that you placed within that to provide a robust evaluation, especially around alternative investments in the -- in the private equity and private debt sphere.

Thank you.

DAN O'MALLEY: I'll take that one. So within alternative investments, controls are part of our understanding. We look at controls for every key asset -- key account. And the auditing standards require us to obtain an understanding. That means we're going to look at the design -- identify key controls and look at the design. We'll be able to tell you if they're designed well. And then if we can benefit from either a more effective procedure, or a more efficient procedure, or if the risk drives us to needing to test those controls to address the risk, we'll test the operating effectiveness of those controls. And that would supplement the substantive work that we do.

In terms of the actual valuation and Erin can -- she wrote the chapter. Alternative investments, there are two different investment structures. One is direct investment. So if it's a direct investment, we're going to audit that through appraisals. We're either going to use specialists that are familiar with appraisals of private entities or we're going to use appraisal specialists that are familiar with real estate. We have specialists in the firm. We audit more banks than any other accounting firm, and that -- and through that -- or publicly traded banks. Thank you, Kevin.

And through that, we look at a lot of appraisals as a firm each year, because that is one of the greatest risks on the financial institution side. So we have experts in-house that can look at those appraisals.

From a alternative investment on -- in a fund structure, the biggest piece of evidence that we can get is an audited financial statement. So reviewing that audited financial statement, that anchors that it exists, as well as it has value, but most audits are going to be at 12-31. So we know that there's a gap between 12-31 and June 30th.

When it -- with that lag, there's going to be two drivers of change to the -- to the valuation. It's going to be cash flows. When they're returning money to your entity or when they're calling money to make new investments, we've developed analytics at other entities that use State Street off of their data looking at those cash flows where we're able to look for outliers, either because of the size, given the vintage of that fund, or just abnormal size of -- for that asset class.

On top of that, we do look at the valuation, both as a portfolio. Is your portfolio similar to peers as well as benchmarks? And that gives us comfort over the valuation at the portfolio level. And then because we're able to look at cash throws and changes to each individual investment, we're also able to identify outliers where the change isn't driven from cash flows and perform further procedures to address the risks associated with large changes in valuation.

KEVIN SMITH: Dan, one quick follow-up question. The question alluded to internal controls. And many people focus on year-end valuation. But when I think of private equity, so many of the most important controls are in the due diligence and the selection of the investment. Is that pat of our approach and why?

DAN O'MALLEY: Yes. So we find the best control in place with alternatives is that selection, making sure that that commitment that you're going to make, because that -- they're going to make a decision to invest in a fund. And those capital calls aren't going to come for two or three years sometimes. So making sure that we're looking at due diligence controls helps mitigate the risk of existence. So when you actually are starting to fund those capital calls, we're able to address those -- address the risks through those controls. And we often supplement that -- supplement -- we often use that as a core procedure when we're looking at alternative investments.

COMMITTEE MEMBER PACHECO: Just a follow-up on that particular question there. Do you have in-house domain expertise in developing those internal controls and those valuations?

DAN O'MALLEY: Yeah. So we have a capital markets group that focuses on private equity funds as well as real estate -- a real estate group that focuses on real estate funds, so we have access at Crowe to experts. In fact, with you today, he's currently the managing partner, but he -- prior -- his former job was as the private equity practice leader.

JOHN KURKOWSKI: I spent ten years running a private equity practice. We work with 500 private equity groups around the country, really from all facets of what they do from deal origination all the way to the acquisition to, you know, managing it and selling it.

Within that or over and above that, there's 200 plus capital markets audit clients that we work with. So fund managers, broker dealers, we know the space really well and have very extensive expertise. If you look across our firm, probably half our people touch PE in some capacity.

COMMITTEE MEMBER PACHECO: Thank you very much.

CHAIR COHEN: Okay. Seeing that there's no other question, you have a little bit of time on your --

KEVIN SMITH: We have seven minutes and twenty-two seconds, but we also recognize we're standing between you and lunch, so I --

(Laughter).

KEVIN SMITH: -- promise not to filibuster.

I hope one thing is incredibly clear, we would love to service as your independent auditors. CalPERS would be an incredibly important client to Crowe, to our public sector practice, to our Sacramento office. And I guarantee that you will receive the type of service that you want.

But when I try to put myself in your shoes and try to make a decision as to change or which firm, I've really spent a lot of time about this in thought. If I'm in your shoes, what should I be considering?

First and foremost, you guys are unique, whether it be your insurance programs, the size and scope, there's not -- you don't have a peer-base, but you've got a few PERS out there that are close in size -- somewhat close. I think you've got to evaluate have they done something of the size that leads us to believe they can do our audit? Having done two of the next four largest, I think we demonstrate that.

I try to tell people as they come into the PERS practice though, when you've seen one PERS, you've seen one PERS. Each one of them operates off of a different organizational structure, different State laws. It's a variety of different things.

The other thing that I think Crowe brings that no else does is we've got a deep understanding of both the State, the primary government, as well as your contributing entities. So not only are we committed to serving CalPERS, we come in understanding your -- many of your primary stakeholders. So when I think about that, I just think we have a unique value proposition to CalPERS. We've demonstrated we can do something of the size and scope similar to CalPERS. We're committed to the State of California, and we believe that our values align with yours, both from a stewardship, as well as we believe that you're engaging us to work with management, but to come back to you with the honest answers as to both from deficiencies identified, improvements that could be made, as well as the underlying financial statements and how they compare to GAAP.

So with that, I'll turn over the last four and a half minutes and let you guys get to lunch. But again, we would love to have your work.

CHAIR COHEN: Thank you.

All right, seeing that there are no other questions, we appreciate your presentation. Thank you so much for joining us. This concludes your interview.

So colleagues, we are now going to take a 45-minute lunch break and we will resume the interviews when we return. And we'll be starting with KPMG.

Thank you.

(Off record: 11:57 a.m.)

(Thereupon a lunch break was taken.)

AFTERNOON SESSION

(On record: 12:47 p.m.)

CHAIR COHEN: Good afternoon, ladies and gentlemen. I'm going to gavel down, so that we are in session. I want to welcome the team KPMG, LLP to the table. Thank you very much. At this time, I'd like to ask staff to invite -- oh, done.

So, I want to go back to something. Your firm was asked not to view the interviews that preceded you. Can you confirm to the best of your knowledge that your firm did not view any interviews?

JANE LETTS: Just -- okay. I just want to double check I did that correctly.

Yes, I confirm we have not.

CHAIR COHEN: All right. Thank you very much. I appreciate that. All right. So you're going to have five minutes to begin with opening remarks, okay? And then we will have 45 minutes for questions. We have six questions that we have -- that we have for you to answer. And if there's any time after, we will have follow-up questions for you. Okay. We'll have five minutes for follow-up questions. Are you all square on rules of engagement.

JANE LETTS: Yes, we are.

CHAIR COHEN: All right, that's great. Let's go ahead and begin. Welcome.

JANE LETTS: Okay. Good afternoon, Madam Chair, Mr. Vice Chair and committee members. Thank you very much for the opportunity to present here in person today. On behalf of the entire KPMG team, we are very excited to present our qualifications and experience to you. My name is Jane Letts. I will serve as the lead engagement partner for the CalPERS engagement.

I've had this role on multiple public pension plans of your size and complexity. I have also been the sector leader of the government -- state and local government sector as the audit -- audit sector leader with KPMG. And in that role, I bring my national experience to this engagement sharing insights and emerging issues as they become aware to other -- as they become evident to other public pension plans that we are auditing.

I want to walk you through why we think KPMG is the right choice for CalPERS. I would like to highlight four differentiating factors as to what sets KPMG apart from the other firms, our experienced team, our approach, our technology, and our culture and values.

So with that, I would like to explain to you we are the leading firm that provides services in this market. We currently audit 11 public pension plans within investments in excess of $10 billion, which is experience that our competition cannot match.

Many of the individuals included in the KPMG team here, as well as in our extended proposal, serve on these plans. Our audit approach streamlined delivery model emphasizing real-time auditing with risk-based strategy allowing issues to be addressed early on before year-end and allowing your team more time to spend on strategic initiatives and their general operations.

Our approach is a proven process foundationally driven with innovative audit technology and proprietary tools that bring greater efficiencies and add real added insights and deep value. We are committed to quality and service and excellence in all that we do. Our culture and values are in line with CalPERS. Our culture and values guide our behaviors, our day-to-day thinking. They inform how we -- they -- it is how we make our decisions. It is how we treat others and how we treat our clients. CalPERS should expect the utmost level of service.

You can expect that with CalPERS being -- CalPERS engagement team, led by me, that it will be my number one priority to serve this engagement. Before I go any further, I'd like to take a minute to have the rest of the team members introduce themselves.

CHAIR COHEN: Great.

LISA AVIS: Good afternoon. My name is Lisa Avis. And I will serve as the onsite supervisor. I've dedicated my entire career to serving state and local government entities. I actually worked on the audit of CalPERS previously and I reside here in Sacramento.

STEVE EISENSTEIN: Good afternoon. My name is Steve Eisenstein. I am an actuarial specialist on the team and have previously served CalPERS on its audit. I lead a team of actuarial -- of credentialed actuaries who assist our audit teams at KPMG when post-retirement defined benefit plans and either a part of or the subject of the audit.

SETH BLACKMAN: And my name is Seth Blackman. I'm the asset management practice leader here in Northern California and I'm responsible for overseeing the investment section of the audit. I'll bring decades of experience across all investment types and asset classes to this engagement.

MATT KEPLER: Good afternoon. My name is Matt Kepler and I'll be responsible for the risk assessment and audit approach when discussions occur today. You'll mainly hear from me about audit execution and technology adoption.

TAREK EBEID: Good afternoon, Madam Chair and the Committee members. My name is Tarek Ebeid. I have a couple of roles in the firm. One is I lead our private audit practice across the U.S. and I also run our audit practice here in Northern California. Those two roles give me a unique position to make sure that our team here and the entire firm delivers on every single commitment we are making to you in our proposal and today. I want to underscore and reaffirm our unwavering commitment that KPMG will serve CalPERS with the highest level of excellence. We will provide you with a high quality audit empowered by our tools and methodology, and we will provide specific insights to CalPERS specifically tailored to you. With that, thank you again. It is a privilege to be here and we welcome your questions.

CHAIR COHEN: Great. Thank you very much. We are going to go into the second portion, the 45-minute question and answer segment of the interview. Like I said, KPMG, you'll have a total of six questions, so please plan your time accordingly.

Staff start the clock.

Thank you. And the floor is yours.

First question. All right. I'm going to be bringing you the first question. What specific expertise does your firm have in auditing public pension systems with complex investment portfolios. The second portion to that is, can you share examples of innovative solutions or insights you've provided to clients like CalPERS.

Thank you.

JANE LETTS: Okay. Thank you, Madam Chair for that question. I'm going to start with our experience and then I'm going to ask Seth to come in and discuss the investment portion of the audit and share some experiences.

So, as I outlined in our opening remarks, we are the leading firm in this market. We serve 11 public pension systems in this -- in the U.S. that have investments in excess of $10 billion. So we have a very seasoned team of professionals that work together, that know this industry. We additionally have served as CalPERS -- we have -- we have audited CalPERS in the past, so we have deep institutional knowledge. We are familiar with your systems, which would make for a very seamless transition back to us, because we still have a lot of team members that are part of this team that have served CalPERS in the past.

We have a proven technology and proven audit approach that we employ as part of our engagement, we do complement our team with GASB professionals, public pension system professionals, investments, information technology that all come together and collaborate as one engaged team. It is a work -- it is an environment that we spend in -- it is a team that we spend collectively with all -- we serve all of our engagements with, not the same team, but the approach of the complement of resources, and it works very, very well. Our clients are very engaged with us. They do like the opportunity to deal with specialists that are very familiar with their industries, and we collectively work on that as a -- as a team together.

With that, I would hand it over to Seth and ask Seth to talk about the investment portion.

SETH BLACKMAN: Thank you -- (clears throat). Thank you, Jane.

So in speaking to auditing, similar portfolios that CalPERS has here, there are a couple real highlights that I'd like to bring to your attention, Why KPMG, why me, why our team?

First, deep specialization. So, I bring decades of experience to you from our asset management based team here in the Northern California region with hundreds of folks that literally specialize in every asset class across the globe. And we think that that brings a significant value-add to you, because of our deep specialization.

Second, leadership commitment. Tarek mentioned nationally, even locally from an asset management standpoint, one of the biggest challenges is making sure that you have the best access team, and talent, and subject matter experts. In my role in leading our asset management practice here in the Bay Area and Northern California, I can be confident and say that you will have access to those specialists, those subject matter experts, and those team members that will deliver a value-add engagement to CalPERS.

When it comes to portfolio familiarity, as Jane mentioned before, we've seen it. We understand it. We've audited it. What we do as our audit approach is we take a disaggregation approach to each asset class that you have within your portfolio. We go product by product and we key on the key risk factors that we identify, primarily valuation as it relates to the investment portfolio.

What sets us apart when you need talk about value-adds? I think one of the real unique aspects that KPMG can deliver, and myself especially, is the global network that we have, where I'm speaking to various CFOs, portfolio managers and clients across the globe about what they're doing, what they're investing in, and what trends and risks they're seeing in their life, in their port -- in their company. That experience can deliver you not only benchmarking, emerging trends, perspectives, and insights as it relates to your portfolio, value that I think goes beyond the audit.

One real fun aspect for me is our technology.

And I think that's really a differentiator. When we think about the investment that our firm has made over the years, this really gets to what I think is the essence of our core differentiator, where we're going to be able to provide effective and efficient audit with real value for our clients. So, if you just take a -- by way of a few examples, when we think about your equity portfolio, we have automated routines that will take all of your equities and we'll be able to track buys, sells, realized, unrealized through our software with exceptions that spit out when we trace it back to custody statements, or valuation, or completeness, or accuracy. And that issue identification is really where the value comes in, because we're doing so much more and testing so much of your population in less time with our technology.

On your private equity and downstream investment fund portfolio, we have proprietary software that will take the limited partnership agreement, your subscription documents, the confirmations that are part of the audit process from your downstream investment funds, and we'll feed that into our proprietary software, and we'll be able to do again a comparison that will say does the performance confirmed align with your books and records. And that becomes a real value-add to be able to focus in a breadth and depth of audit work that's focused on key differentiators and differences, that can add value to he portfolio and to the audit.

So, I'm really excited about where we are from a technology standpoint, and I think it's a real differentiator. So, yeah, happy to pass back to you, Jane.

JANE LETTS: Am I on. I apologize.

CHAIR COHEN: No problem. So the next question is going to come from David.

VICE CHAIR MILLER: Explain the process you will use to select samples to assess active member consensus data. And as follow on, describe the risk-based approach you intend to use to test the census data reported to CalPERS for PERF B and C. For reference, this is described in item number two on page three of the RFP.

JANE LETTS: Thank you, Mr. Vice Chair. I'm going to ask Matt Kepler to answer this question.

MATT KEPLER: So at KPMG, we do have a robust risk assessment methodology to start before I go into more of the substantive way we test census data. But around five years ago, we went through a whole risk assessment journey as a firm. And that was to really get down to where are the true risks of material misstatements when looking at different aspects of testing. And so, what this prevents is over-auditing of items that don't present a material risk and really putting our audit effort and focusing on those material risks.

So two pieces that I want to touch on when looking at risk assessment. The first piece is technology. We have matching engines and compare engines, and specifically it's perfect for census data where you could put the full population for prior year and current year into these engines and it spits out all of your exceptions, with people added, taken off the census, as well as data element changes.

So we've done this at other public pension systems as well. We see birth dates changing. We see Social Security numbers changing for the same member ID, which you would expect not. These are exceptions we would obviously have discussions with management about, about what is happening with the system, what's happening with the data. So that is the hundred percent risk assessment approach that's extremely beneficial, instead of taking just a sampling approach and looking at 40 members when you have a million.

So -- and then the second piece I want to speak on is just our experience. So members on this engage -- on this panel have been on CalPERS before, have audited CalPERS. And that's extremely beneficial when looking at risk assessment that's such a less of a burden that we place on management when we do have knowledge of the system, the processes, and the plans here.

So, David, back to your question where how does risk assessment translate into substantive testing? It's really looking at those compares, it's finding where our risk really is in the census data, and then looking at that portfolio of risk and making sure we're hitting it appropriately with our sampling test work.

CHAIR COHEN: Okay. Thank you. Next speaker -- or next question.

COMMITTEE MEMBER PACHECO: Thank you.

The RFP states that the selected firms will obtain and evaluate the actuarial experience studies and the evaluations made by CalPERS staff as they affect the financial statements. Describe your approach for evaluating the studies and evaluations. What will your criteria be for determining how these studies and evaluations might affect the financial statements?

Thank you.

JANE LETTS: Okay. Than you, Mr. Pacheco. I'm going to just start a real brief intro to that and then I'm going to introduce our actuary Steve Eisenstein that is here, our in-house actuary, to assist and go through the actuarial review that we do, but the actuarial assumptions in the reports are an extremely important part of the audit. We engage our actuaries -- our in-house actuaries, as it is integral -- a very integral part of our team selections. And we have a history with them working with our plans. We're familiar. We do early-on meetings with our clients, with our actuaries, with client actuaries to plan for changes in assumptions just to have a very good dialogue up front with our clients, so that we make sure that we have addressed any changes, any out outcomes, so that we're not at the very end of our audit coming up with exceptions related to actuarial assumptions, because that would have a significant change on the financial statements of CalPERS or any public pension system.

With that, I'm going to hand it over to Steve and let him talk through the rest.

STEVE EISENSTEIN: Thank you, Jane, Jose Luis. Actually, we've kind of started looking at the experience study. So you had the meeting back in April with just a preliminary look at the mortality and cost of living adjustment. And it was -- it was interesting. It was a quick presentation, but very interesting to read, and also was able to take a look back at the study from 2011 to read through that, and also having previously served on the CalPERS audit, the experience study that preceded the 2021 study.

Interesting enough, my guess is that as you go forward, given that you got information in April of 2025 and there was also new mortality tables the came out for public plans in May of 2025, you're probably going to have some more revisiting on mortality is my guess.

But the way that we look at, the way we evaluate a couple areas. One, Matt talked about our risk-based approach to the audit. And in that risk-based approach, we're going to look at the assumptions that have the highest risk of material misstate -- (clears throat). Excuse me. Risk of material misstatement on the financial statements for the -- you know, looking at the plans as fiduciary funds.

And in that light, I would anticipate that we'd be looking at things like mortality, discount rate, cost of living adjustment, salary scale, which is also expected to change, with the anticipated change of 10 to 30 to basis -- 10 to 30 basis points on the COLA assumption. And we're going to read through the rationale, understand the rationale. We're -- to come to conclusions on the reasonableness of the assumptions.

We are not here to try to replicate or redo an experience study, but to look at the information you've presented to us, as CalPERS management in order to make our assessment. And should we have questions, we would always entertain the opportunity to talk to our actuaries and those who were doing the study.

Jane, pass it back to you.

JANE LETTS: We're ready for the next one.

CHAIR COHEN: For the next one. Okay. The next one is going to come from Kevin Palkki.

COMMITTEE MEMBER PALKKI: Thank you, Madam Chair. This assignment requires the selected firm to test relevant assertions over CalPERS investment assets, and among other things requires an analysis of whether the investment positions are disclosed and fairly presented. As you may know, there has been some concern regarding transparency about investments and fees paid to investment firms. Please describe how you will evaluate whether CalPERS meets disclosure requirements.

JANE LETTS: Okay. So I'll -- we all know that in -- the financial statements are prepared in accordance with government auditing standards. So this is a combination, as I said, that we have complemented our team with some GASB -- with GASB-experienced professionals, as well as our industry-specific professionals of investments. So when it comes to disclosures in accordance with GASB standards, I am -- I have been performing GASB audits for 32 years, as I have been with KPMG in auditing public pension systems now for the same

32 years. I don't feel that old, but that's, you know, my own -- my own issue, right?

So, with that, obviously, we do -- we work together with our investment's team. So with that, I will ask Seth to chime in and answer the investments portion.

SETH BLACKMAN: Yes. So as I mentioned previously, one of the things I'm most excited about is our audit approach and our integration technology and how it ties in, not just the investment confirmation from the downstream investment fund that you're investing in as it relates to the fund of funds portfolio, but we're able to tie that back to your limited partnership agreement. Agree that to the expenses paid, so whether it's management fees, carried interest, or really getting in deep to your investment portfolio on a look-through basis, that ability to span and go through on depth and breadth basis will provide us with the ability to test a broader sample, if you will, even though the sample is going to be not sample. It's going to be a population that will include all your portfolio holdings.

So we think that that technology overlay with our proprietary software will provide us with greater access to review and work with you on the expenses of the downstream investments.

CHAIR COHEN: Okay.

JANE LETTS: Can I just -- I'm sorry.

CHAIR COHEN: Absolutely. It's your time.

JANE LETTS: Maybe I can add one other thought. As part of this presentation we talked about that we actually have had institutional knowledge, as we were here as the auditors, and there are several team members that did participate in that audit, so we have that knowledge.

We also, as part of our, you know, review in preparing for this presentation today and preparing to be your auditors, because that's what we want to be is we want to be back at this table presenting to you, we actually did have our professional practice review the financial statements in advance and to make sure that all of the disclosures and financial statements are in accordance with the standards.

So that is something that we've already taken, you know, initiative and reviewed the financial statements and we're comfortable with the -- with the disclosures that were in there in accordance with the GASB reporting requirements. So I just kind of thought that that was an interesting point to add that I wanted to share with you that, you know, we've already reviewed the statements and we're comfortable with the disclosures that were there. And obviously, it is meeting the standards requirements.

CHAIR COHEN: Okay. I think Ramon Rubalcava had a follow-up question.

COMMITTEE MEMBER RUBALCAVA: Thank you. Not a follow-up question.

CHAIR COHEN: Oh, it's the next question.

COMMITTEE MEMBER RUBALCAVA: The next question.

CHAIR COHEN: Sorry.

COMMITTEE MEMBER RUBALCAVA: Thank you. As described in the RFP, there are specific requirements regarding the timely completion of the audit work. How will you manage the project to ensure that your firm meets all the deadlines? Is there a risk of not meeting deadlines? What steps will you take both to inform CalPERS management of the risk, and what steps will you take to mitigate such risks? Thank you.

JANE LETTS: Okay. I'm very happy to receive that question, because this is actually a very exciting technology that KPMG does have of how we do monitor and in the way that our workflow goes through the audit process, as well as a very important point of how we keep management involved in the -- in giving them insight into where we are in our audit process.

So, I'm going to pass that on to Matt Kepler to answer the question. But first, I do want to say it is overall my responsibility and the team's responsibility for communication. So I have a very open dialogue with my clients and it is extremely receptive. If there are issue, if there are concerns, if there are risks, if there's any chance that we're not meeting deadlines, we're actually having meetings early on, and that really does not happen.

I want to give you one quick example that I just -- I just had in one my current clients is that we have, in the last two years, been able to push the reporting timeline up for another very large public pension system by four weeks. And that is because we took the initiative with the client, we had met with them extremely early on. We talked about the required, you know, prepared by client listings. We laid out a timeline. We also stuck to it. We accomplished our concurring -- our second partner reviews very early in the game.

So last year, we shaved off two weeks. And this year, by the end of September 30th, we will be shaving off another two weeks. And that is actually a very proud accomplishment, because that -- there's a lot of timing and it is -- it's a -- it is an investment portfolio in excess of $10 billion. It's a lot of work to shave that kind of time off. But with our audit process, it is something that we can easily -- we can easily accomplish. It just takes coordination, collaboration with obviously both parties, the auditor and the client.

With that, I'll hand it over to Matt.

MATT KEPLER: Thank you, Jane. So what we've implemented in the past few years to our audit methodology is what we call our audit life cycle. The audit life cycle sets separate -- different benchmarks, due dates, and what we need to get completed in certain time frames. So, for example, for CalPERS, we would need to be close to 50 percent done, our audit file, by June 30th. I think that is a huge step forward. You know, that is bringing work forward, sampling forward, inquiries forward, walk-throughs forward. And that really alleviates the back end of the audit and let's it be more of a flexible agile audit, because there is more time later on.

One of the benefits to this audit life cycle methodology that we're implementing, is that it brings issues, problems, questions to management a lot earlier. We're not having those last minute discussions that everyone dreads on both sides. We're bringing them up earlier. We're addressing them. And if something were to come up later in the audit, like I said, we have the flexibility to address it.

I actually implemented this audit life cycle on my most complex GASB client this past year. And what the feedback we received was that it just smoothed out the audit process. Usually, management sees a real spike at interim and at final of requests and samples. It really smoothed out the time frame and gave management sometime back to really focus on what their response belonged, which is the financial statements.

The feedback we received was that they were able to take a more in-depth review, take their time with the financials, and it was probably the best version we've seen of the financials as a first draft. So I think giving that time back to management, if we're able to spread out that audit and bring work forward, I think it would be extremely beneficial.

CHAIR COHEN: All right. Thank you.

JANE LETTS: Sorry. One more comment. So I think one of the other things that you were referring to, and I think I'd like to add, is their dashboard. So KPMG is our audit process has a dashboard that clients actually have access to. And they can have real-time access into where the audit is, the stage it is in, where we are in analyzing the audit, performing our procedures. And it gives them the ability to, you know, go in anytime, see what their -- where they are in providing us their prepared-by-client information and really stay on top of their staff as well. And we can give this access, this visibility of this dashboard to anyone within management that would like it, and it really gives -- you know, instead of waiting for a status meeting.

Yes, we will have our status meetings continue to have them, but we also will not be wasting time going line by line through that. We could really -- management will already know where we are in the audit and we can, you know, go to what is overdue, what we need to do to get to the next milestone or the next time period. And that has really -- that has significantly increased the efficiency of our engagements and making sure that we are meeting our deadlines on both sides, management as well as the auditor.

Thank you.

TAREK EBEID: The one nuance, if I may -- if I may add, the milestones that we have set are not stretch goals, are not aspirational goals. They are hard goals that we hold each other accountable to. And what that does, if you really think about our -- the audit life cycle from risk assessment to involving specialists, when we -- those milestone percentages, we get to done, done, That means through specialists, through concurring reviews. And what that does is it de-risks any surprises throughout the audit. And as Jane mentioned, the management and CalPERS would have complete transparency on where we stand, on any given day relative to the audit.

And when we -- when we in -- when we say we are done with this area, that means it's gone through all the required procedures and you can count on us not going -- having to go back, having somebody look at it again. We litigate it, come back six months later. And all the clients that we speak to, they really, really value that.

CHAIR COHEN: Okay. Mullissa Willette.

COMMITTEE MEMBER WILLETTE: All right. Thank you. The final prepared question is a series of questions. First, how does your firm plan to add value to CalPERS over the five-year engagement period? And then also, what emerging trends or challenges in public pension systems do you foresee and how is your firm preparing to address those on behalf of clients like CalPERS?

JANE LETTS: Okay. I'm going to ask you, please keep me honest, because I was trying to write all of those series down, but please keep me honest on those -- on those. So I think your first -- the first piece of that question was how do we add value, right? I think we've been talking about our audit process and how we add value, right? It's through our technology.

We actually have a proprietary tool, which I really would love to talk -- to have Matt Kepler present that to you. That is a -- that is a real value-driven proposition, as well as Seth has already talked about our investments added value and covering a hundred percent of sample -- a hundred percent of your population. So with Matt -- we'll start with Matt.

MATT KEPLER: So, over the past few years, we have been changing the way we substantively audit. We're no longer trying to just pick 20, 40 samples, like I said before. And we have proprietary technology that has been externally validated through inspections. But what it does -- and I'll use contributions as an example. What it does, it takes your current year contribution sample and your prior year contribution sample. We put it in our DNA tool and it runs various tests over it, logical and statistical-based tests and assigns a core to each and indi -- each individual transaction.

Based off those transactions -- or based off those scores, it then buckets it between low, medium, and high. Whatever gets put in that low bucket is done. It's audited. There's no sample sent. There's no questions asked of management, no follow-up meetings. It's a real efficiency game changer. I had to implement this on one of my GASB entities over their primary revenue source. Eighty-five percent of the transactions fell into that low bucket. So we had 85 percent of the transactions tested within two hours of receiving these populations.

Then the next buckets are your medium and your high buckets. Those are your outliers. Those are where we think value-add can be done through technology. The client I spoke about, we just sit -- we sat down with management and we went through the different buckets of transactions that were falling into that medium and that high bucket. We actually did find some duplicate payments within there, items of that nature, where you're looking at a hundred percent. If you're taking a sample of 40, you're not finding that. When you're looking at a hundred percent, you are finding those sort of anomalies.

We also presented it to their audit committee through Power BI dashboard. It made a nice visual and that was greatly appreciated by them. And I think it just really showed the value that we had in presenting, you know, where their risky areas lie and where the audit committee should be concerned -- or not concerned, but made aware of and how we addressed it.

LISA AVIS: One of the other questions that you had asked related to staying on top of emerging issues and just how we keep informed of that. So, not only do our staff participate in trainings, we participate with the standard setters who developed those trainings. In addition to serving on task committees, like our leaders did with the pension and OPEB pronouncements when they rolled out, we also participate on AICPA committees.

So I was also a practice fellow at the GASB for two years, so I was able to see firsthand what it takes developing those standards, the thought process that goes into them when they issue the pronouncements. And so what that does is we're able to go back to our clients and say, okay, this was the underlying thinking of what was going into those standards. Now, let's look and let's just work collaboratively to make sure that those are implemented in your reports.

So I also have a role in helping develop trainings for our professionals at all levels. We talked about how Seth's team has investments. We have government experience as well. We make sure that our staff are well versed in all aspects before they step foot on the engagement.

Now, what we bring to our clients is not -- we bring that to our clients, not only these experiences, but we also work with our clients. We hold trainings for them in person as well to be -- to be able to discuss what those issues are. And that's something that we would love the opportunity to provide you.

JANE LETTS: I believe that would have answered the series of questions. So I just wanted to obviously double check that. I think that I'd like to, you know, wrap that -- this question up is that obviously I talked about our, you know, experience with 11 large complex public pension plans with similar investment -- or similar investment portfolios that have, you know, -- we have visibility into obviously, you know, what -- a lot of experience dealing with risks and challenges through the years of auditing them.

One, you know -- one that I had been involved on earlier in my career, stepped away from over a rotation, and then obviously came back. I mean, there are -- there are significant challenges. So I think -- or, I'm sorry, there are significant risks that they deal with. I mean, if you just think about what they are, and they're pretty common against -- among all of them. I mean, to talk about specific ones, accuracy of actuarial assumptions, right? You know, obviously digging down and looking at the actuarial assumptions, and, you know, looking -- should -- based upon experience studies and, you know, economic times, is there anything that really should be changing, mortality rates, retirement ages, you know, looking at the long-term rate of return?

They all need to be revisited and analyzed, right? And those are definitely risks that we do highlight and focus in our -- during the court of our audit procedures.

Another one is just changing environment due to

AI and technology. We'd be remiss if we didn't sit here and talk about that. But, you know, your service providers are changing the way that they are doing business, so CalPERS needs to obviously sit back and think, you know, hey, we're getting information in a different way. Our service providers, do they have the appropriate controls in place that -- of the information that we're relying on? That is also something that we look at very seriously and incorporate into our audit procedures and evaluate when we're doing our audit.

One more I would like to highlight is just general operation risks, internal controls, data security and fraud, right? Those are definitely risks that we do focus on as well in our other public pension systems, and we design, you know, procedures. With respect to, you know, internal controls, we'll get the internal controls that are -- that are in place here at CalPERS to ensure financial reporting. We all know that internal controls, you know, in the government environment that we do not opine on, but we don't ignore them. We look at the -- we do walk-throughs of internal controls. We flowchart it. We, you know, obviously analyze that.

And where we can bring value to you is based on our experience, what we know. We have been doing this for -- I have been -- I have personally been doing this for 30 years. And we can share with you the experience and the knowledge. That is something we believe firmly that our competition does not have that depth and breadth of experience, at least looking at it, you know, from a -- from a perspective of, you know, the amount of -- the amount of experience that we have in this specific industry.

It is not just our audit experience. We have a global pension practice that has significant audit, advisory and tax services. I meet with these groups on a regular basis. We present at conferences together. We will be presenting in October at the P2F2 conference together. We share ideas. We talk. We collaborate. We understand. I reach out to them personally, because I want to understand what are they doing, what kind of risks are they seeing? You know, even if it's -- even if it's advisory work, I still want to understand what their clients are actually thinking about and doing and what are some challenges that they're facing.

So then we obviously bring them back an auditor. And as I said, I'm also the audit sector lead of this industry. This is -- this is information. It's a small close -- I call it a family. This is my KPMG family and we meet on a regular basis and we share, you know, just kind of what the risks and challenges are, so that we're obviously all on the same page, you know, thinking about them.

And building them into our audit procedures, and, you know, sharing ideas. So I just thought that would be really very relevant for you today.

CHAIR COHEN: That is very relevant. I have a question -- a follow-up question that I wanted to put out to you. I understand -- I understand a few of your team members have worked on the PERS audit, but curious to know what -- in what way do you believe that it to be a competitive advantage? Do you think that that gives you a competitive advantage that it gives you over your competitors having that exposure and experience?

JANE LETTS: I'm going to let Lisa handle that.

CHAIR COHEN: Okay.

LISA AVIS: Yes. Thank you. And it's -- and it's good to be back. So, we have already been through a transition. Transitioning to another audit firm can be -- it can be cumbersome --

CHAIR COHEN: Um-hmm.

LISA AVIS: -- but we've already been there. We've been successful in doing that. With that experience, we know what it takes. We know your deadlines. We know your reports. We know your systems. And that's value that we have, then having an entire group come in that is brand new that your staff will have to spend time upscaling on those various processes and procedures.

Also, because we know you and we know your reports, we know the data, we've been talking about a lot of the new tools and technology that we have. We can use the existing data that you have. We do not need you to recreate the wheel, run reports just for our purposes to get the data through those tools and get the data through our analysis. We're willing and able to work with the data that you already have.

And as they stated here, we've actually already started. We've reviewed the financial statements. We've reviewed special reports, having our national office look at it, talking through the trends and issues -- not issues, but the trends that we're seeing and how those come out with the report. So we've already started.

It's just, you know, we're excited to be back and hope to work with you all.

CHAIR COHEN: Another question regarding your DNA tool, do you believe you are the -- do you believe that you're the only firm that doesn't use a sampling approach?

JANE LETTS: I'm going to let Tarek answer that.

TAREK EBEID: Okay. From our -- one of our tools is transaction scoring. It is our understanding that we are the only firm that actually can conclude on substantive work using that tool. Our under -- my understanding is other firms use it for risk assessment and internal controls, but they haven't been able to get to substantive testing. Our firm concludes on a substantive basis using our DNA tools?

CHAIR COHEN: Thank you. All right, colleagues, do you have any questions or anything following -- anything lingering?

Anyone?

Please, Ramón.

COMMITTEE MEMBER RUBALCAVA: Yes. I'm interested in, just to follow up on the Committee Chair's question, technology and stuff. You mentioned this audit life cycle. In your cover letter, you talk about a Clara platform that incorporates AI capacity. How is -- and then you talk about engagement management life cycle. How are they separate or the same, and how do they interact with each other, and what are the different functions of each, and how will that event help us in your work of the audit?

TAREK EBEID: Sure. Think of KPMG Clara as the audit platform for the firm. That's what we call it. There is a KPMG Clara for client, and that is the one that will -- you will have access to, and that's where we will be exchanging messages, posting PBC requests, sharing documents. That will be a collaborative site that we will use. The KPMG Clara for the engagement team is going to be our internal audit platform that we use to execute the audit.

The engagement management life cycle that we talked about is fundamentally the way we execute the audit from planning, risk assessment, think of them as our guiding principles or how we operationalize, plan and execute the audit. And that's where the timelines and the milestones come in. So, KPMG Clara for client is the collaboration site with CalPERS. KPMG Clara us, that's our audit tool -- electronic audit tool. And then the way we execute the audit is through our engagement management life cycle through the milestones that we discussed earlier.

COMMITTEE MEMBER RUBALCAVA: Thank you. And how does -- what are the -- how does AI work in your system -- in these two systems?

TAREK EBEID: We have been investing in AI. We were actually one of the first big four firms to invest heavily in AI. KPMG Clara is incredibly powerful and it is -- really has a ton of AI tools. And we are actually deploying agents as -- agents right now to be able to do routine low-risk processes from cradle to grave. And what that will -- but we'll always have a human in the loop obviously. And we're very proud, our technology is the only one that has been externally endorsed and -- by Microsoft. And we put a quote from Microsoft in there. They've authorized us to use that quote.

So, we have a lot of powerful engines that are truly unique, differentiated and proprietary, that will help us with the risk assessment, help us with audit execution, help us with substantive work, but what that will do at the end of the day is make the human in the loop, this team, and the rest of the team that's not here today, be able to analyze the data and be able to use external data where we can sit back, and look at the entire population, and be able to provide you the executive summary of where we see the trends, where we see anomalies, and benchmark you against other public pension systems, and be able to provide you that executive summary and looking at the forest versus the trees.

COMMITTEE MEMBER RUBALCAVA: Thank you.

JANE LETTS: If I can just add on to Tarek's comments. I think if you were to take a look at our slide, people and platform, Tarek referred to it as the human in the loop, but it is the people. You can't just have the platform. You need the people. You need the experienced -- you know, unparalleled experience in the industry to drive that platform, the technology, and the audit approach, which is how I refer to the platform, right? All of that coming together is what you can obviously have a successful audit, which actually brings added value out of the audit, so we are not just, you know, meeting your needs. We're exceeding your needs.

That's -- that is what we drive to do is we want to bring you that value. We want to give you more than just signing and audit opinion. We believe that KPMG can do that for your. We would -- we're jumping at the chance to be able to bring you value, bring you our insights, and obviously, you know, shared that information with you.

CalPERS is the largest institution -- largest organization, public pension system in the world. We are the leading market firm. We can -- you know, we have the innovation as well as the people to be able to deliver and exceed your expectations. We want to be your auditor. We -- we're asking you for obviously the chance. We want to be your choice today.

So with that, it's been -- I know we're probably going to close unless you have another question. I just wanted to say, if I don't get the opportunity, it has actually been a privilege for me to bring this hand selected team in front of you that has all of the skill set and the role. They've been each hand selected to be here today. I know we have another extended team. We didn't fill the room, but we have an extended team that is jumping at the chance to give in front of you and to do the audit of CalPERS.

CHAIR COHEN: Great. Thank you. We do have some time still after the 45 minutes, but just because we have the time doesn't mean we have to use the time.

(Laughter).

CHAIR COHEN: So --

TAREK EBEID: We would have to answer any incremental --

CHAIR COHEN: Yeah.

TAREK EBEID: -- questions that are still on any your minds.

CHAIR COHEN: Well, I don't see any on the roster. I think you've satisfied all of our questions and our curiosity. So thank you very much for your presentation and we appreciate your time.

TAREK EBEID: Thank you very much.

JANE LETTS: Thank you very much.

CHAIR COHEN: Now, you can go have lunch, yes.

(Laughter).

(Thereupon a lunch recess was taken.)

CHAIR COHEN: All right. Staff, could you please invite the representatives from Plante Moran.

We should probably have walk-up music for people when they come into the chamber to come and sit down before us.

(Laughter).

CHAIR COHEN: Well, I love the coordination, one team, one dream. Great T-shirts. All right. Welcome. Please take a seat, Make yourself comfortable. You'll be with us for the next 45 to 55 minutes. I want to welcome you. My name is Malia Cohen. I'm the State Controller, but also Chair of this body. And we are excited, not because you're our final interview --

(Laughter).

CHAIR COHEN: -- but because we just love hearing these different ideas in the presentation. So, I'm going to have to ask just one question for you. We'll -- let's see. Yes. We're going to do a presentation, but before we do the presentation, I have to make sure that no one was peeping on the previous interviews or listening in. Can you attest to that

JEAN YOUNG: Yes.

CHAIR COHEN: All right. Thank you very much. I appreciate that. Okay. So this is the way it's going to work. We have 45 minutes. First you have five minutes to do opening remarks and a presentation, uninterrupted by us. Then we will segment into the second part of the interview, which is 45 minutes, which is six questions that we have. These are uniform questions that we've asked every group that's come before us for the interview. And then after that 45 minute, we have an additional five minutes that we can spend or we cannot spend, but we have that time built up for questions, follow-up questions to the questions. All right. All right. Thank you very much. The floor is yours.

Unmute, please.

No, it's not. When it's red, it's on.

JEAN YOUNG: Okay.

CHAIR COHEN: When it's green, it's off.

(Slide presentation).

JEAN YOUNG: Okay. All right. Well, good afternoon and thank you for allowing us the opportunity to speak to you today. I am Jean Young, a partner at Plante Moran. I've been there 35 years and worked in the public sector my entire career.

So I really have -- my mission -- I like to work with mission-type organizations. So I want to see that there's being good done for the community. I'm honored to introduce our firm and the dedicated team. You're going to hear more from them. Our strategy was we really wanted to bring the people that would be working on the engagements. We have other specialists and other people on the flowchart, but this is who we really wanted to display to you.

Maybe if you could go to the next slide for me, please.

So this is everyone that we've assigned to the team. And again, I know we are limited to nine people, so we wanted to bring the ones you would see the most. As you will learn a lot of us have worked together. In fact, I have worked with everybody on engagements that is sitting at this table.

If you can go to the next slide, please.

So probably the question we always want to answer is, you know, what makes us unique? And what makes us unique is a Elorion Plante and Frank Moran back in 1924, Frank was a philosophy er and he created us. And we're a people firm disguised as an accounting firm, so we really have the culture and the values. And together, they created a people pers -- people first firm. Sorry, too many words.

The bottom left of the slide is our wheel of progress and we see that as a continuous journey. There's not one point in time when we measure success, but we want to have good staff, good work, good clients, and progress in that. The "We Care" is a ruler that we're all given and that's really our motto we live that relatively jerk free. We're -- we -- you know, we're all human, but we try and keep that to a minimum. And again, we really believe in team collaboration. The center on the right, the "One-Firm" firm, the circle, really what that means is we're going to bring our auditors, our specialists, our standards person through the audit. We work together. We are not counted as cost centers within our firm. The firm supports that we bring the right team to serve the client that we're currently working on.

The next slide is our values and culture. Again, culture is very fortunate for Plante Moran, and it's just part of who we are every day. And another quote that Frank said, he goes, "There's no right way to do the wrong thing." And we take that very seriously. We work as a team. Our values are very aligned with CalPERS. And we just think we're the right collaborative partner to be able to give you a high-quality audit with the personal touches that you deserve and appreciate your mission that you have.

Our next slide is on our diversity, equity and inclusion. Again, very proud of this. This is embedded in our culture. It's not just the responsibility of one person. It's a responsibility of all of us. You may have noticed our culture. We are wearing T-shirts today and it has our "We Care". And we just wanted to display that, so you would know that, again, we're a people firm.

We also have various staff groups, staff resource groups, which are similar to your ERGs. And you'll notice on these name tents that we brought, there's a logo of the SRG groups that we participate as a firm.

Now, I will turn it over to Michelle. We've worked together for over 30 years in the public sector, including large PERS.

MICHELLE WATTERWORTH: Good afternoon. My name is Michelle Watterworth. I am coming to you from Plante Moran's national technical office and will serve as your technical colleague partner throughout the inception of the engagement.

On the next slide, slide six. This shows our national public sector footprint. And you can see it's vast. But as much as we are proud of our nationwide experience in the public sector, we are equally proud of the work that we do right here in the state of California, where we currently serve over 800 clients. In fact, the State of California represents Plante Moran's fifth largest revenue stream. That really is a dedication to the amount -- the state's role and significance in our overall client portfolio. One of our projects that we recently completed was actually with the State of California to develop a homeless data integration system.

Plante Moran doesn't shy away from hard things. And this was definitely a one-of-its-kind project.

You can turn to slide eight.

Jean mentioned that one of our philosophies is that the whole person comes to work. We shared with you in these next couple of slides, which I won't read, a lot of what we call our fun facts. We're hopeful that you can scan that as we discussed today, so that you can understand who we are as a whole person.

Similar to CalPERS principle of balance, as Jean mentioned, Plante Moran is a people first firm, where we prioritize the uniqueness of each of us as individuals. As we move forward in this proposal process, we're excited to demonstrate our value, our experience and how our collaborative approach aligns with CalPERS goals.

Thank you for your time. Can you please turn to slide two for the rest of the presentation.

CHAIR COHEN: Oh, gosh. Sorry. I was -- I'm on the last slide. The woodmaker. Which one is the woodmaker, I'm sorry? Was that you? The sawmill wood worker.

Sorry. I totally --

(Laughter).

CHAIR COHEN: All right. I'm back in the game. I'm here with you.

Okay. Forty-five minutes.

JEAN YOUNG: We're not traditional accounts I think is what that says.

(Laughter).

CHAIR COHEN: Yes. It's interesting to me.

Okay. Forty-five minutes. Now, we have six questions that we have prepared for you. I'm going to start off with the first question. And listen closely, because it's a two-part question, okay? So the first part is what specific expertise does your firm have in auditing public pension systems with complex investment portfolios? Second portion is can you share examples of innovative solutions or insights you've provided to clients like CalPERS?

JEAN YOUNG: Michelle, if you want to take that one.

MICHELLE WATTERWORTH: Yeah, I'll start out, certainly. So in terms of our experience with other plans with complex investment portfolios, the team that we have assembled here today, we specialize in serving public plans. We have made a dedicated effort to dedicate a very good portion, and in some cases like with me, a hundred percent of our chargeable work working with public plans and in the public plan space. And we work on a unique variety of public plans. We have audited cost-sharing plans, agent plans, single employer plans. We have experience with defined benefit, defined contribution, pension, and health care. We have seen it all because of our client base.

And as you know, many of the larger pension systems do have complex investment portfolios and we have experience auditing that complex investment portfolio. We also have a team of specialists, who we bring in to help us with valuation considerations, and that's all they do. They are the valuation experts and we collaborate and pair together as a team when we are looking at those large and complex investments in terms of auditing the valuation approach.

I might turn it over to Spencer at this point in time.

SPENCER TAWA: Good afternoon. Spencer Tawa, principal at Plante Moran. I work on the defined benefit plans. So alternatives, we are going to spend a lot of time on these alternative investments, because of the risks associated with them. Just I would assume that this Committee will spend, you know, time on it. CalPERS -- staff will spend a lot of time on it and valuation. It's a big part of your financial statements and the reporting.

What we do is we follow -- for audit purposes, we follow AICPA guidelines. What we do in our testing is we definitely look at a lot of your internal controls as a start. And if they're designed effectively, comprehensive for valuation purposes, we institute a lot of our -- what we call it control testing within those alternative investments. And what that is is we look at the whole process of your investment valuation. We start from the very first part of the due diligence of investing in an investment, your initial contribution to that investment, the ongoing due diligence of that investment, you know, reviewing and meeting with investment managers on updates to that investment, and then we look at later on your valuation process at year-end, whether that be using a 630 capital statement or using a 331 capital statement and then rolling it forward to 630 for your financial reporting.

And what this allows us to do is really understand your process of looking at the valuation as a whole. Instead of just kind of looking at just substantive testing at your end of your -- you know, a subset of your investments, we really look at the whole process of valuation of these investments, because there is definitely a risk on them and there's different types of underlying investments within them, private equity, real estate, and whatnot. So we like to look at the whole area.

One aspect of this internal control testing that we do in looking at a deep dive has helped one of our clients that we had done this a few years ago really go into and do a deep dive into their valuation process, and really streamline their process, and cut back their close date by about a month, because they really did a deep dive and saw that, hey, you know, there's a lot of things we could do well in advance to come up with a valuation at their year end.

And so we think this is an effective approach to testing those riskier alternative investments. And we definitely do placer a greater emphasis on those that have, you know, significant riskier underlying investments, like the private equity and real estate investments.

MICHELLE WATTERWORTH: And so Spencer talked about one of the ways we added value in terms of our approach to investment testing, if I can speak to another way that we add value. And that is looking very deeply at your internal control system. We do place a priority on doing that. And we don't just do what the audit standards require, right? We go beyond what the audit standards require in terms of looking at your internal controls. We dig more deeply, especially in areas where pension systems have those strong internal controls and we can place reliance on those controls.

And I -- Spencer and I actually have an example of a client situation where they had some really significant weaknesses in their controls over census, and because we delved so deeply into their control system and were able to identify for them exactly the risk points where things were going wrong over a short number of years, they were able to take their census database -- they had some issues with accuracy and completeness. They were able to make significant strides and improvement in their census information.

CHAIR COHEN: Thank you. All right. Next question is going to come from Mr. David Miller.

VICE CHAIR MILLER: Explain the process you will use to select samples to assess active member census data. And as a follow-on, describe the risk-based approach you intend to use to test the census data reported to CalPERS for PERF B and C. For reference, this is described in item two on page three for the RFP.

JEAN YOUNG: And we're going to have Spencer take that first run at the question and then I'm sure Michelle will add to that.

SPENCER TAWA: Thank you. So, yeah, we follow the AICPA white page, guidance on -- white paper, excuse me, guidance on testing your active census date. And what we'll do is we'll look at the population of all the employers and we'll, on a risk-based approach, use a rotating basis each year on selecting a sample of those employers to test on a yearly basis. We will look back to as well and see what predecessor auditors have done and what was tested in the past too to kind of include that into our sample selection. But from there, we'll select a sample of employers to test. And in that, we have a set of guidelines of testing that we do. Part of that is obtaining, you know, payroll information that they've submitted to CalPERS, ensuring that they're reporting the right payroll to CalPERS, making sure that they're contributing right amount of information -- or of contributions to CalPERS.

And then what we'll also do is look at some of the demographic information for those active individuals. So we'll select a subset -- a sample at each of those employers to test the information that is reported to CalPERS. And that would include some of the demographic information, like their gender, their date of birth, again their income, things that will play a factor in the actuarial valuation that will go into calculation of your -- the total pension liability.

From there, we'll also, you know, look at individuals who are on the payroll. Should they be part of CalPERS or shouldn't they not, if they're part time? So we'll kind of do completeness. So for us, it's more looking at existence and completeness of that census demographic information at the subset sample of employers in those two plans.

MICHELLE WATTERWORTH: To address your second question, in terms of PERF B and C, your two cost-sharing plans, the approach that we take is following the AICPA guidance. And, in fact, interesting story, I was appointed to the AICPA State and Local Government Expert Panel, which is the body that writes the audit guide. The audit guide, the auditors, all auditors follow. I was appointed to that committee shortly after the pension standards, GASB 68, came out. That's the standards that talk about the census testing.

And I had the pleasure of helping to write the chapters within the audit guide on testing the census data, particularly the solution set for cost sharing plans. So I know this. I've actually taught this approach to other audit firms. And again, this is the approach that we would follow with PERF B and C.

CHAIR COHEN: All right. The next question is going to come from Jose Luis Pacheco.

COMMITTEE MEMBER PACHECO: Thank you.

CHAIR COHEN: You're welcome.

COMMITTEE MEMBER PACHECO: Thank you very much.

The RFP states that the selected firms will obtain and evaluate the actuarial experience studies and valuations made by CalPERS staff as they affect the financial statements. Describe your approach for evaluating the studies and evaluations. What will your criteria be for determining how these studies and evaluations might affect the financial statements?

Thank you.

JEAN YOUNG: So again, as we mentioned, we're going to collaborate. And Ben is one of our specialists. He's an actuary and we'll have him answer that and then we can add to it.

BEN JOHNSON: Thank you. Ben Johnson. I'm the lead actuary for Plante Moran, and also a partner of Plante Moran.

It's -- I -- we're going through that in any actuarial experience study, you're going to be working through all of the different assumptions, demographic, and economic assumptions, and non-economic assumptions working through on how it's going to affect the population. We will be looking at not only the magnitude of the impact of each assumption while it's coming through, not only if it's going to be impacting the liability and the balance sheet that's coming through the process, but it's also going to be how much that is -- that experience is going to be based on your own experience as well as industry standards, and trying to identify not only what type of changes to those assumptions and that experience that it's going to be offering, the credibility that is there doing the credibility weighted standards, and following all the actuarial standards of practice.

And so it's -- each of these experience studies, every single one is its own pink unicorn and to where everyone's is going to be different and the experience coming through. It also gets in that we're at -- sorry. I get fairly -- everybody is probably going to roll their eyes. I get more excited about pensions probably than anybody you're going to ever meet.

(Laughter).

BEN JOHNSON: And so, it's one of those that I -- I mean, even walking through, right now demographically, we're at a very unique time, where we're looking back on your experience, but that's through over -- we're talking through the last five, ten years. It's through a very unique experience and to where the demographics are changing, the behavior is changing with the pandemic, and how the pandemic is going to be incorporated into those -- your experience studies, what pieces are you including or excluding, what type of adjustments you're making, and trying to view how that -- what is appropriate for -- because everything is going to be predictions for the future and how that's going to be affecting your balance sheet.

And so we're going to be working through every aspect of all of the actuarial standards and how the nation as a whole is addressing a lot of these assumptions.

JEAN YOUNG: I guess, Ben, could you add on the table that you sit at to assist in this process regarding the --

BEN JOHNSON: Oh, absolutely. I -- it's -- I am actually elected to the -- nominated for and elected to the Actuarial Standards Board, and -- so the ASB, that's involved in setting all of the actuarial standards of practice for all the actuaries in the country, and specifically working through on pensions.

And so, we work through and -- well, any restatements, any process -- standard process the actuaries need to follow through the country on valuing setting assumptions, and that goes for demographic, economic, and noneconomic assumptions, setting all of those assumptions, how that's used in valuing liabilities, how that actually walks through and is in -- how it's reported, how it's disclosed.

And so, that's one that I'm at the table when all of these decisions and standards of practice are set, so we can know ahead of time, even before they're -- these are released, what's the intent and the process everything is involved in setting these assumptions as well.

CHAIR COHEN: All right. Next question, Kevin Palkki.

COMMITTEE MEMBER PALKKI: Thank you, Madam Chair. This assignment requires the selected firm to test relevant assertions over CalPERS investment assets, and among other things requires an analysis of whether the investment positions are disclosed and fairly presented. As you may know, there has been some concern regarding transparency about investments and fees paid to investment firms. Please describe how you will evaluate whether CalPERS meets disclosure requirements.

JEAN YOUNG: I'm going to turn it over to Spencer.

SPENCER TAWA: Thanks. So, yeah, reporting of fees as -- like really varies amongst PERS clients -- or PERS in the nation. And this really relates to the information that you receive from your investment managers. And the reason is they report on a very different basis a lot times what their investment fees are. A lot of investment managers will report on the ILPA standards. Some don't.

In addition, amongst a lot of different PERS, there is a variation of in practice of whether reporting your investments net of carried interest or not of, you know, net of carried interest. So there's definitely a variance in that practice throughout the nation. And so really GASB even had looked into this issue on investment reporting fees a couple years ago and they even shied away from it, because of the information that the, you know, public plans were receiving from their investment managers related to their investment fees.

So, for us as your auditors, we do look at your investment fees more analytically, as well as looking through them on the capital statement basis and looking through those ILPA statements or whatever statements you also receive from your managers to determine if, on a subset of sample based, if those investments -- if you're reporting those investment fees for those specific investments properly on your financial records.

JEAN YOUNG: I think you had a question on the reporting also. So obviously, we follow the GASBs make the sure the investments are considered and what category they are in. So Michelle has also been very involved with GASB, so as we mentioned earlier, we work as a team. We have templates that we would use, but tailored to your situation, but we would always have a cold reviewer also on those disclosures. And our cold reviewers do ask questions, so -- but again, I don't know if you have anything to add, Michelle, of the disclosure items.

MICHELLE WATTERWORTH: I think Spencer really did sum it up quite nicely. So, as Spencer mentioned, the GASB did take a look at this, because this is a huge concern, right, by all public plans. And that is the information, or the lack of information, that you're getting from -- and the diversity of information that you're getting from your investments in terms of what those investments fees are and the demand for others to understand those investment fees.

And it was so complex, as Spencer said, GASB basically punted. They stopped looking at this. So we appreciate the challenge certainly there. And so, we evaluate -- when we look at your disclosures and we look at disclosure and presentation and the relevant assertions, we are evaluating your financial statements based on those current GASB standards, which again, as I mentioned, GASB does not talk about the disclosure and specific disclosures related to investments fees, because again of the complexity. So hopefully that answers your question.

BOB DOBROWSKY: Jean, could can I jump in on that as well. Hi, there. I'm Bob Dobrowsky. I'm an insurance -- assurance partner and I'll be working with Jean and the team on your defined benefit and defined contribution plans. And one of the things that I think sets Plante Moran apart is really not only the technical expertise, but really how we go about solving these complex issues, as the question refers to, you know, the investment fees, the disclosures regarding investments. It's a very complex area. What we found in working with our PERS across the country is that oftentimes these complex issues require consultation within your CPA firm.

And I think this is one thing that sets our firm apart is that we actually have built your engagement team to include our firm-wide experts in the team itself. So, they're here at the table today. And what we have found is that this really avoids this whole black box situation that we see with other competing firms. You know, oftentimes, they'll have a national standards office that sort of sits in an ivory tower, and every decision that has to be made on these complex issues has to be run through that, and that creates a lot of inefficiencies.

You know, so our job is to keep things moving and is to, you know, keep your time-sensitive deadlines top of mind. So we found that -- you know, that process that we have, it avoids the frustrations of the black box, and it keeps things moving, and it eliminates surprises.

One of the things that we pride ourself on is not only getting to the right answer, but it's really all about getting the client to the right answer, but it's also about the experience that the client goes through in getting to that right answer. You know, for us, as we like to say, and it's on my tag line here on the card, we're about relationships and not just about transactions. So I think that's a little bit of, you know, how we would differentiate ourselves from our competitors.

Thank you. Thanks, Jean.

CHAIR COHEN: All right. Next question is going to come from Mullissa -- oh, Ramón. There we go

COMMITTEE MEMBER RUBALCAVA: Next question, as described in the RFP, there were specific requirements of -- regarding the timely completion of all the audit work. How would you manage the project to ensure that your firm meets all deadlines? Is there a risk of not meeting deadlines? What steps will you take to both inform CalPERS management of the risk and what steps will you take to mitigate such risks. Thank you.

JEAN YOUNG: Yes. Great question. And we have a process. And Nate is going to share some information on that.

NATE SHUREB: Hello. My name is Nate Shureb.

I'm a manager from Plante Moran. I'll be working on the D.C. and OPEB plans. And really, for deadlines, we like to start from the end and work our way back to the beginning. So, what is the deadline that CalPERS would have to meet. And then from there, we build our audit plan making sure that we have internal deadlines both for ourselves and for CalPERS management, so that everybody can be held accountable. Now, throughout that process, we're going to have weekly meetings with the teams. But obviously if anything big comes up, we would also raise those items quickly, so that we can handle them and they don't linger.

And then the other thing is we use a SharePoint site, which is for documents that get uploaded that we would use in the audit. And that SharePoint site also establishes deadlines and due dates for those items. And within there, it also allows us to accept and complete those documents once we have reviewed them. So that allows us to know how many items we're through and it lets management know as well what we've gotten through and where there might be open items that we need to discuss or need to receive from them to keep the audit on track.

Thank you.

AMANDA CRONK: One thing I just wanted add to what Nate shared -- I'm Amanda Cronk. I'm a principal. I will be focused on the defined benefit and defined contribution -- and OPEB plans. One thing I will add to what Nate shared is our method of constant communication. We think the audit process is in -- with the lack of communication, the audit process will not go smoothly, and that is not our approach. We would much rather constantly communicate status updates, have discussions on the items we're requesting, and we really do that through a partnership with management. And what management prefers as to the frequency of those meetings, and certainly again just open dialogue. We think that really just helps the process that Nate described go much smoother. And again, as Bob mentioned, nobody likes surprises, and we don't either. So we want to make sure that as a cohesive team, that we're all working together to achieve those goals.

MICHELLE WATTERWORTH: I think if I can interject here with a quick story, because I think a story brings things to real life to reality. And I'll give you an example of a scenario where we took over a very large engagement from a big four firm back in 2016. That big four firm had been auditing this particular city. It was an extremely large city, one of the top 20 in the nation for a number of years, and the audits were consistently behind.

They were in doing the audits pretty much making it a full-time job, 24/7, 12 months out of the year. And we were hired back in 2016 as their new audit firm. We did get them caught up to timely financial reporting. It was the first time in 13 years they had that timely financial reporting. And in the process, due to our very significant emphasis on audit quality, and I talked about the fact that we really dig in -- we look at internal controls. We look at transactions. We really do look very deeply at what's going on. We were able to identify over $300 million of adjustments to their financial statements that had been wrong in the past.

So not only did they -- we catch them up to timely financial reporting, and they've been consistently on time every year since, they also now are achieving their GFOA certificate of achievement, which is something they hadn't done in 13 years, and we also got their financial statements back on track. And again, part of it is a testament to our communication, our strong project management skills, and the fact that we bring experts from the firm throughout the firm. We don't have the profit centers. We bring the right people to the table.

In addition, we have that professional standards integration, the no black box that some one talked about here, so that we can resolve issues timely. We don't have to wait for someone in our national office to get back to us on answers. Our national office, in this case, me, is here. Thank you.

DAN VANDREUMEL: Michelle, if I could quickly. Sorry. I just wanted to piggyback off what you mentioned in that story. My name is Dan VanDreumel. Good afternoon. I'm an audit principal here at the firm. I've been with the firm for over 13 years. My role on this engagement will be specific to the proprietary funds. And, you know, Michelle had mentioned bringing the full weight, services, expertise of the firm to this engagement.

My background is completely in insurance services, and so I'll be focusing primarily on the proprietary funds. And within our firm, we have over 80 dedicated professionals serving the insurance services industry, serving over 200 insurance clients. I, myself, have had the privilege of working with a large GASB insurance client located right here in Sacramento, the CEA, for over 10 years. And I think going back to the question of getting to the timely completion and efficiency of the audit is that we know insurance, we know GASB health care funds. We know these proprietary funds. And so, the CalPERS staff and the team, you know, won't have to teach us what PPO, and HMO, and Medicare is. We've seen it. We've done it.

You know, I know Ben is on the complete opposite side, but we do like each other. We work well together and we're excited about the opportunity.

CHAIR COHEN: All right. Thank you very much for that. We are going to hear from Mullissa Willette. She's our last question and then we will again have more follow-up.

COMMITTEE MEMBER WILLETTE: All right. Thank you. Thank you so much. I have the last batch of questions. So, first, how does your firm plan to add value to CalPERS over the five year engagement period? And then also, what emerging trends or challenges in public pension systems do you foresee, and how is your firm then prepared to address them -- those challenges or trends on behalf of clients like CalPERS?

JEAN YOUNG: Kristin, if you want to take part of this question and then we can add.

KRISTIN HUNT: My name is Kristin Hunt. I'm a partner with Plante Moran and I will be working on the defined benefit plans as well as the OPEB plans, really to answer the question about what type of value that our firm will bring. We're very proud of what we have a -- of our combined team that we have, that brings the whole power of the firm.

So besides just the individuals that you see that we've brought here to speak with you today, which includes a variety of auditors, as well as some specialists like Ben. We would also have the ability to have other individuals throughout our firm that are able to bring value to the firm. One of the things that makes our firm different is that we are not structured by individual office, but whether we are by an entire firm. So that allows us to staff the best individuals for the job on the engagement, but it also gives us the free access to specialists, like Ben, as well as other specialists like cybersecurity, valuation specialists, and IT specialists as -- and it is virtually anything that you would need help with with consulting or issues that you might come -- have come arise, we would be able to help you with that. Succession planning. There's lots of other things, and feel free of any of my colleagues to add to that.

JEAN YOUNG: So I think I'd like to add when you asked about emerging trends. I think one of the things we highlighted is we have people at this table that are sitting at the national level and understand what's going on. Another thing that we do is we actually have monthly meetings for all the people who participate in PERS to share our knowledge. A lot of our industries within the firm do that.

So looking at trends, we take what we've learned from other clients. We take what we've learned from other industries. Again, we collaborate as a firm. Michelle is our standards person, the top of that. There's people below her, but she keeps us informed of issues that we need to consider. And we really, when we do come across something that it is a concern, we have webinars. We send out notices to our clients. We call them, so they can be prepared on that. So I think that's really how we would be prepared to address that.

MICHELLE WATTERWORTH: Yeah. Jean, maybe I can tag on to that a little bit and talk about, you know, there's -- the scope of emerging trends is broad and Kristin mentioned succession planning. We are seeing a lot of our public plan clients focus more and more on succession planning. It's become a very significant hot button issue for many of them. We actually are speaking at the P2F2 conference this fall on succession planning. So we have a whole area within Plante Moran that is well versed in this topic. And one of our top people in that area is coming in speaking to, you knowing, many of the public plans, just like you, at the conference in October on succession planning trying to impart some wisdom there.

In terms of emerging trends on the accounting side, currently in my role, I am a member of the Governmental Account Standards Advisory Council, which is

GASB's main advisory body. And so, you know, not only do I appreciate the standards that they're issuing, but I'm at the table before standards are even issued. I'm having those discussions with GASB at the forefront. And I take my responsibility to my clients very seriously, in that I share that wisdom that I learned be -- having a seat at the table there with my clients, so they stay abreast of issues and challenges. You know, GASB's agenda is certainly not like it's been in the past. In the past, they've had lots of projects on their agenda. They have held the pace down, because they understand what I just mentioned about succession planning, some of the staffing challenges, more broadly across the nation that plans and other governments are seeing. Especially with the shortage of CPAs, it's become quite a critical issue, but yet, they are still issuing standards.

And I make it my mission and my goal to make sure that my clients are on top of those standards and they know about them before they even become a standard, so that you can do the appropriate planning and put mechanisms in place, so that once it does become a standard, you're prepared, right? You're prepared. That's really important and really critical to me.

BOB DOBROWSKY: Yeah. Hi. Bob Dobrowsky again. I just had -- I think it was on.

(Laughter).

BOB DOBROWSKY: Yeah. That's the first -- that's the first time I've ever been accused of not being loud enough.

JEAN YOUNG: I might have to break these two up, but I think we'll be all right.

(Laughter).

BOB DOBROWSKY: There is one other trend that we've seen in the -- in the PERS practice that I think is relevant to CalPERS and it has to do with auditor independence. So we've actually seen within our PERS client base, where because of private equity investment into CPA firms, PERS organizations have had to move into an unplanned change in auditor, because, as you know, the primary way to exit an investment in private equity is to sell.

And so that is -- that's a pretty big issue that's in the -- as we see it. It affects our client base and also affects us. And the one thing that we're quite proud of is that we are a hundred percent owned by our partners. We've really doubled down on being a true partnership and we've avoided seeking outside investment from private equity. And I think that's important to CalPERS, because I think what that -- what that provides CalPERS is the knowledge that our service and our delivery will never be compromised to your organization, because of short-term profit-driven decisions. And so I think that's one thing that really sets our firm apart.

So thank you.

CHAIR COHEN: Thank you. Colleagues, any more questions?

No. None. Okay. Any last remarks?

JEAN YOUNG: Yes. So again, we just wanted you to kind of see. We brought the team --

CHAIR COHEN: Yeah.

JEAN YOUNG: -- because this is who would be working, so we wanted to make sure you saw that. We love serving our clients. We do care. We want to make sure you're successful. We like to partner in that. We're very excited. Again, I've work in public sector in a lot of pension plans for 35 years. That's because I started as an accountant when I was 12, because I'm really not that old, but, I mean, it's just -- we all work as a team and we're really love to work as a team. We share knowledge. Michelle is always available to address our questions.

So you would be a very important client to us. You have a mission. You're serving your community. I just really respect that. And those are the type of entities that we all enjoy working with. So again, just thank you. We'd love the opportunity to do your audit and happy to answer any other questions.

CHAIR COHEN: All right. I see one from Mullissa Willette down on the end.

COMMITTEE MEMBER WILLETTE: Thank you. Thank you. Bob, earlier you mentioned you have a tagline on your card. I noticed that, but I can only read as far as Michelle. Can you tell me more about what taglines are and can everybody read their tagline for me?

CHAIR COHEN: And can we get the corresponding screen, the -- you know, how there's --

COMMITTEE MEMBER WILLETTE: Is there a corresponding screen on your thing?

JEAN YOUNG: Oh, with our fun facts.

CHAIR COHEN: The logo.

JEAN YOUNG: The fun facts.

COMMITTEE MEMBER WILLETTE: Like yours is a veteran, right?

JEAN YOUNG: Yeah. I'll start and then I'll move it down. So mine is, "Mission Driven Focus". And again, I've worked in the public sector for 35 years. That gives me satisfaction. I've done some for-profit work and it just didn't work as well for me. I'm in the SRG. I'm actually in four different groups. But the veterans is actually very close to me. I also audit the VF National

Home that helps veterans. They have a complex and they have about 40 homes that they provide to assist the veterans.

So, again just love that we have these groups and we can be an ally. You can join even if you're -- I'm not a veteran myself, but I'm an ally, so, just very important to our culture.

And then I'm going to move it down. Thank you, Dan. There's Dan. I'll let him start.

DAN VANDREUMEL: Dan VanDreumel, principal. Again, I'll be focusing on the proprietary activities. And my tagline is, "Precision That Protects," meaning with my insurance background knowing the importance of serving the members, the claims history, and ensuring compliance and completeness of those types of activities.

SPENCER TAWA: Spencer Tawa --

CHAIR COHEN: I'm sorry. Do you have an affinity group that you're part of?

DAN VANDREUMEL: Yes. My affiliate group is just the People Magazine. Plante Moran is annually and historically voted among People Magazine's top 100 companies that care. And we were voted once again as a top company that cares about its staff, its people of all background and diverse groups. We were voted among this in 2025.

SPENCER TAWA: So Spencer Tawa. "Trusted Results, Seamless Processes," is my tagline. And that's just really high -- you know, delivering high quality audits in a very efficient manner with your staff. And then my group is the AAPI, the Asian-American Pacific group.

KRISTIN HUNT: Hello. I'm Kristin Hunt. My tagline is, "Beyond Compliance Towards Confidence." I've worked with municipalities and public pension funds my entire career. I -- myself, the first 10 years of my career, I worked as a State employee and then also at a large county and internal audit. I've been with Plante Moran for 20 years, so I understand, as well as having parents that are retired school teachers, how much the -- your responsibility is that you have and how much everybody is looking towards you to make good decisions. I take that as personal responsibility myself as an auditor. I always tell my team members we are not manufacturing anything, but what we are doing is individuals are placing high reliance on this piece of paper that we provide that says that things -- you know, that there is an unmodified opinion.

So I take great pride in teaching all of my team members and making sure that we're performing the test work that we are ensuring that we are doing high quality work and that they understand all of the procedures that they're doing. And that's one of the greatest joys that I get to work in my job is that I get to train a lot of different team members, so -- and the staff resource group that I'm involved with is the African American Staff Resource Group. That goes along with training different team members. I'm very proud of the work that we've done to work with some different high schools and college level to bring individuals into our firm on -- for internships to be able to ensure that everybody has equal opportunity to be able to get into the field.

MICHELLE WATTERWORTH: Thank you so much for asking that questions. We're so excited to be able to share that. So my tagline is, "Simplifying The Complex." And I like to really think of myself more as a teacher. I actually come from a long line of teachers. Very unusual in my family to be an accountant and not a teacher, but I use those skills every day in my technical role. I teach not only our staff, but I teach our clients, and I teach other firms, as I mentioned before. I speak a lot with the AICPA and it's one of my most -- it brings me a lot of satisfaction, especially when I see people getting concepts that are hard that I try to make example.

My staff resource group that I'm involved in is the Asian-American Pacific Islander Group. I picked that because one of my staff is the co-lead for that group, and I'm just extremely proud of the work that she's done there and I want to support her in any way possible.

AMANDA CRONK: So my tagline is, "Audit With Assurance." And while that may be -- you know, may speak for itself, I think the piece that might not be as clear is, you know, our goal is that you can rely on the audit that's performed, but also that your members can. You know, your members rely on this organization for their benefits and they should also have assurance in you.

My staff resource group is Women in Leadership. And I obviously am very connected to that Resource Group, but I think the thing that I'm most proud of is its focused on providing opportunities for women and our number of female partners since inception has gone up 76 percent, which I think is just astounding and just really lays the groundwork for success for all of our other SRG groups as well.

BOB DOBROWSKY: Hi. Bob Dobrowsky. And again, my tagline was, "Relationships Not Just Transactions." And the reason why I picked that was because early on in my career, I really learned, and it was primarily from one of my mentors, is that, you know, you could do the greatest job ever, but, you know, if you -- if you -- if your clients don't have a great experience, they're not going to be happy with you. And so what I've really tried to pride myself on is just that, you know, looking at every interaction that I have with clients through the lens of the relationship, and not just through the lens of a transaction. And, you know, that's become much more clear to me over the last five years, you know, when you are working in hybrid situations. And so I really take that as a theme.

And then, for the staff resource groups, I'm a member of the Divergent Minds. We call it, "Minds of All Kinds." And then also I'm an Ally to our Pride SRG. My assistant, Robin, is the firm-wide leader of the Pride group. And just like Michelle, I take a lot of -- it's an honor to really work with her and let her thrive in that position. So thank you. Thanks for asking that question too.

NATE SHUREB: Hello again. Nate Shureb. And so my tagline is, "Trust Through Transparency." I spend about 70 percent of my time doing public sector work, so whether it's local municipalities or big retirement systems, such as CalPERS. And something I realized pretty early is when you're dealing with public funds and other people's money, transparency is key. So, from that perspective, it's always been important to me. And then, I think we had a question earlier on how we meet deadlines. It's hard to meet those deadlines it's hard to deep audits on track and build those relationships with our clients without that transparency.

I am a member of the Minds of All Kinds SRG Group. And we also do a lot of work with the Pride SRG group as well.

Thank you.

BEN JOHNSON: Hi. Ben Johnson again, lead actuary. This one probably isn't going to becoming over surprise that mine involves numbers. And so, it's, "Where Numbers Meet Meaning." And it's one of those things that is going through my -- and, again, I'm really sorry. I get -- I find myself getting more excited about pensions, so I have to -- always have to take a step down, so that I -- when we actually are walking through that I've spent -- I'm one of the very few that -- Plante has a very low turnover rate.

And so I'm one of the few that was an experience hire there, so I spent a large chunk of my career at large global actuarial consulting firms. And it's one where in joining Plante, it was something that the way I wanted to run things and the way I wanted to work with clients and those participants in the plan fit perfectly into Plante, and it really -- and I work with my staff and the team to where it's working through that if we -- when you're working through with the numbers, the data, the assumptions, the statistics and probability of everything, if it all tells a story, and you have to be able to read that story. And that's also how you can communicate that to our clients, the -- any reporting that you're working through, and to where those numbers all -- there's a story there and you just have to be able to read it.

And that's where I get very excited to where if the same process that I try to follow when it's not only I attend, but I not only speak at the Enrolled Actuaries meeting each year, as well as the Conference of Consulting Actuaries, to where I'm trying -- I lead a session that is applicable here, that is -- it is working with auditors. And so, I teach actuaries on the important parts that auditors are going to be caring about. And even though, they -- a lot of times auditors and actuaries don't speak the same language, I get the privilege of actually working as an interpreter on that, so they can -- so they can work through and understand everything that's going on.

And so -- and the biggest part that is there is communication, communication, communication, and to communicate more often, communicate more and communicate more frequently. And so, that's the biggest part that drives for mine. And so that's where the numbers meet the meaning.

My group is PM Pride. And that's one where it's -- I mean, I feel like it's been a lot going through, but it's very important that we are able to have those SRGs.

COMMITTEE MEMBER WILLETTE: Thank you very much.

Thank you.

CHAIR COHEN: Thank you. All right. Great. Looks like we are -- you've exhausted our questions. I think you've exhausted your statements.

(Laughter).

CHAIR COHEN: So, I want to thank you for your time. I'm grateful for your interest as well and this concludes the interview.

Thank you.

JEAN YOUNG: Thank you very much.

CHAIR COHEN: All right, ladies and gentlemen, I just want to let folks know that this concludes all the interviews. And we're going to take a pause to resume the livestream. Staff, has the livestream over the internet resumed?

Not yet. Okay. Has the livestream over the internet resumed yet?

Not yet. Okay.

Okay. Great. All right. Thank you. For those watching this meeting over the internet, the interviews have just concluded and we're moving now into Committee discussion and scoring.

Committee members, we will now determine an interview score as a group for each of the finalists. The maximum number of points for each finalist is 700 points. After we've discussed each of the -- each of the firms, I'd like for us to use a single motion assigning a score to each of the finalists. With that in mind, I'll open up the floor for discussion.

Mr. David Miller.

VICE CHAIR MILLER: I will open up the discussion just by first just a statement. I am -- these candidates are all very strong. I think any one of them would be -- we should be proud to have in front of us. But I had them scored fairly closely, but I'll just -- the order that I had them in from the lowest to highest, I had Plante Moran at 620, I had Crowe at 635, I had KPMG at 650, and I had BDO at 655. So, that just -- and just start things off, but that's kind of where they shook out to me with my method of scoring things.

CHAIR COHEN: Could you say that one more time. You said BDO at 655?

VICE CHAIR MILLER: BDO at 655.

CHAIR COHEN: And KM --

VICE CHAIR MILLER: At 650.

CHAIR COHEN: Fifteen, 1-5?

VICE CHAIR MILLER: Six, five, zero for KPMG, 620 for Plante Moran, and 635 for Crowe.

CHAIR COHEN: Okay. Thank you. I see no other names on the list. Are you guys still thinking about -- okay. Kevin Palkki.

COMMITTEE MEMBER PALKKI: Thank you, Madam Chair. No, I concur with David the -- everybody had their niche and their expertise. One thing that did stand out to me was the topic on AI and cybersecurity. And obviously, we are a people industry and protecting that information of our members throughout not just the process, but the transfer of information between organizations and the safety of that transfer is a high concern of mine, so the -- to know that BDO addressed that issue put them very high on my list. So from the -- just the top three, I chose BDO to be number one, Plante to be number two, and KPMG to be number three.

CHAIR COHEN: I'm -- can I ask a question? When you say that BDO is high on your list, can you give me a reason why?

COMMITTEE MEMBER PALKKI: Mainly because of the topic -- well, they addressed the cybersecurity and AI issue to the extent that I felt was very appropriate and needed when it comes -- especially when it comes to --

well, really the cybersecurity of the issue.

CHAIR COHEN: Okay.

COMMITTEE MEMBER PALKKI: It related to the issues of cybersecurity in today's matter.

CHAIR COHEN: Okay. And can you go over your point rankings again for, please?

COMMITTEE MEMBER PALKKI: I very simplified them, just I -- BDO with 700, Plante with 600, KPMG with five and Crowe with four. So I just went down the hundred marks.

CHAIR COHEN: Okay. All right. Ramón Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Madam Chair. I too had BDO as first. I was impressed with their quest -- their answers to the meeting timelines. They had by far the most developed answer. They talked about structured hands-on project management. They talked about different subtiers, teams and daily huddles, and status updates. Some of the other firms were talking about where it puts the onus on CalPERS to get into their project site or whatever. And so I thought they were more proactive and weekly calls with the core team and had trackers and all that. So I was very impressed with BDO on that point.

And in coming into -- I have to say this, because I shared it with somebody else. Coming into this meeting looking based on the literature that was available to us, the cover letter, the resumes, what have you, I had Plante Moran actually pretty high, but I didn't think -- I don't know. I don't want to say -- how to say it in a positive way, but the team leaders say, you know, I brought my team with me, but if you look at the chart they had and the resumes, some of them though I thought was some of the stronger people who have worked on Michigan, on LACERA, from -- were not here, so I was trying to read that. So, I --

CHAIR COHEN: Let me make sure I'm summarizing what I'm hearing you say.

COMMITTEE MEMBER RUBALCAVA: I'm just being -- I'm just offering --

CHAIR COHEN: You're saying that you --

COMMITTEE MEMBER RUBALCAVA: I expected them to be stronger based on what was submitted in the cover letter. And I don't think they were very strong on how -- he made a comment on the insurance side meets -- meshes with the actuarial. I wasn't sure how it -- it didn't seem very developed on the technology piece. Yeah, so, I mean, in a way, I was just disappointed. That's what I'll say. I'm saying, in my initial -- coming in, I had them ranked high. So I'm just telling you they're now -- not number one or number two. They're number four for me.

CHAIR COHEN: Okay. And can you --

COMMITTEE MEMBER RUBALCAVA: Sorry. I don't meant to say that --

CHAIR COHEN: Oh, don't be sorry. Can you tell me what your rankings are?

COMMITTEE MEMBER RUBALCAVA: I hadn't put a number, but I'll just say --

CHAIR COHEN: Okay.

COMMITTEE MEMBER RUBALCAVA: -- BDO is first. I actually liked Crown[SIC] second and then --

CHAIR COHEN: Crowe.

COMMITTEE MEMBER RUBALCAVA: -- Crowe, Crowe, and the P -- KPMG and then Plante Moran.

CHAIR COHEN: Okay. Jose Luis.

COMMITTEE MEMBER PACHECO: Yes. I also want to iterate -- first of all, one is -- I want a clarification, if perhaps you can just clarify on the Board interview score, 700, is that the maximum? So if -- it would go from 0 to 700, it would be the number that you would put in there, correct, and then the scoring?

So the way I -- first of all, I want to just say thank you to the whole process. I think this has been a very robust process. I think the way we did the interviews and how we went through the questions, I think it was all very good, and I think -- I think it's a --

it's a very streamlined process. So I want to elaborate on that.

So my conclusion was, I also -- I found that -- actually, I found Plante Moran pretty impressive in terms of their approach to their culture. And that's what really impressed me was their culture, their insight. I was also impressed with their understanding of the public pension persons, but what more importantly, what really triggered me was these folks come from our world. Many of them came from the public sector and they moved from the public sector world into the accounting world and the auditing world.

And I find that really refreshing, because I believe that they really understand our culture, they really understand where we come from, and they provide a perspective that I think would be appropriate. And based on all that, I scored the following: With respect to Plante Moran, with the subscore and the Board interview score, it came out to be 990 -- 909 -- 994.59. I also found Crown[SIC] also very --

CHAIR COHEN: Okay. Hold on a minute. Hold on.

COMMITTEE MEMBER PACHECO: I added the scores.

CHAIR COHEN: Yeah, I know. I don't want you to do that. You don't have to do that.

COMMITTEE MEMBER PACHECO: You don't have to do that.

CHAIR COHEN: I just want to know --

COMMITTEE MEMBER PACHECO: Okay.

CHAIR COHEN: -- out of the 700 points allo -- that you can allocated today --

COMMITTEE MEMBER PACHECO: Oh, I see. I see what you're saying.

CHAIR COHEN: -- how would you like to allocate them?

COMMITTEE MEMBER PACHECO: Okay. Very good then. So the allocation --

CHAIR COHEN: Don't make it more complicated, sir. I know you're an engineer and smart, but don't overdo it.

(Laughter).

COMMITTEE MEMBER PACHECO: I won't do -- overdue it then.

CHAIR COHEN: Thank you, sir.

COMMITTEE MEMBER PACHECO: So the first one would be for Plante Moran would be 650. For Crown[SIC], it would be six --

CHAIR COHEN: Crowe.

COMMITTEE MEMBER PACHECO: -- Crowe would be 600, for BDO, 400, and for KPMG, 380.

CHAIR COHEN: Three eighty?

COMMITTEE MEMBER PACHECO: Yes, ma'am.

CHAIR COHEN: And BDO was 400?

COMMITTEE MEMBER PACHECO: BDO was 400, yes. So first, Plante Moran, Second Crown[SIC], third would be BDO, and the fourth is KPMG, LLP.

CHAIR COHEN: Okay.

COMMITTEE MEMBER PACHECO: Sorry about that Madam Chair.

CHAIR COHEN: No, it's okay. So, you know, I really enjoyed this entire process, probably because you got a little bit of a glimpse of what it's like to be the State Controller to hear about GASB rules, to hear about guardrails, you hear -- now, we experience actuarial reports here on this body. And no disrespect to our actuarial team, but they can be a little not fun.

You heard -- what struck me was I think each team all had a handful of professionals that were connected to the national boards, national boards that are setting the rules and the guidelines that we engage with when it comes to auditing standards, and I like that. And -- but I only heard from one in particular that said that they actually are writing the policy, which to me speaks to a deeper level of knowledge, deeper body of knowledge. And I haven't done a numeric score, but I came in with no bias and no preference.

Being new to this Committee and new to this role, I was blown away by Plante Moran. I thought that they had both the technical skill side and the human skill side -- skill set needed to communicate not only with us as trustees, but also to the public who are also listening and following the conversation. And I thought that their approach was not over the -- over the heads of people, the average person, but if they needed to go technical, they had the ability and the skill set to go technical.

Now, interesting, Mr. Rubalcava, you said that you heard that there was a disconnect between one to the other, the actuarial and the -- who was it, the actuarial and the insurance.

COMMITTEE MEMBER RUBALCAVA: The actuarial and insurance.

CHAIR COHEN: The actuarial and the insurance guy. And what I heard was traditionally there id a disconnect between how the actuarial numbers drive the insurance and the coverage. And what I heard from Plante Moran was that they actually communicate and talk to each other. And the one thing that was clearly demonstrated before us was the comradery, the mutual respect, and the fluidity when it came to just making a presentation and knowing a present -- knowing the material.

Now, I want to spend a little bit of time and talk a little about Crowe. Crowe was very interesting to me, too. Once they got the nervous jitters out of them, the presentation really was fluid and it was tight. And it was almost -- it was tight. And also, it was like watching a conversation unfold between the team members and this body.

Now, BDO struck me, because it was -- it felt like they new the answers. They could anticipate -- they anticipated the questions and could -- knew what direction -- or what we wanted to hear. And I guess that would be very natural, because of -- they currently have the contract and know us very intimately.

I do have a quick question for staff. Could you tell me how long BDO has been our client -- or our consultant?

And colleagues, if you know the answer to that, feel free to let me know.

Michele.

CHAIR COHEN: I'm hearing six years.

OPERATIONS SUPPORT SERVICES ASSISTANT DIVISION CHIEF HEEB: Six years.

CHAIR COHEN: Six years. Okay. Six years. Okay. And who was there -- who was our predecessor? Do you recall that?

CHIEF FINANCIAL OFFICER NIX: KPMG.

CHAIR COHEN: KPMG. Wow. This is so incestuous.

(Laughter).

COMMITTEE MEMBER RUBALCAVA: They were there for one year. Is it okay to ask staff why they were there for only one year?

CHAIR COHEN: Sure. Why don't you come -- the question is for what reason was KPMG only with the contract for one year before BDO came in?

CHIEF FINANCIAL OFFICER NIX: Certainly, I answer that. I started around that time, so -- okay. So we had an auditor prior to KPMG that didn't finish their contract out. And KPMG came in on a limited term and stepped into and did the audit for us, like finished that term. And then they didn't get -- somebody didn't get the RFP. There wasn't a timing -- the timing on the RFP wasn't right, so it didn't get issued in time to get an auditor in play for the next year, so KPMG did it for the following year. And then we got a proper RFP out for the auditing. And at that point in time, KPMG just didn't win it.

CHAIR COHEN: Okay. And so before KPMG came in and did that one year stint, did we have another consultant that we were engaged with? I'm just trying to map out --

CHIEF FINANCIAL OFFICER NIX: I'm sorry. The question?

CHAIR COHEN: So we had BDO. We have currently BDO.

CHIEF FINANCIAL OFFICER NIX: Yep.

CHAIR COHEN: And they have a six year contract. Before BDO, it was KPMG for one year.

CHIEF FINANCIAL OFFICER NIX: I see. Yeah, I can under -- I see what you're saying. Why was there six years on a five-year contract? It was because BDO came and finished --

CHAIR COHEN: KPMG's contract.

CHIEF FINANCIAL OFFICER NIX: Yeah. They came in. We extended the audit RFP process out a year and they came in and -- I think that's what happened. I'm sorry. Did we -- we extended it out. I think KPMG did it for a half a year and then a year. And then BDO came in and did it, until we could -- oh, I know what it was. We tried to get the contracting in. Another auditor had actually won the bid, but we couldn't make the contract work, so we ran up against an audit timeline, so BDO stepped in at that point.

CHAIR COHEN: All right. I appreciate that. Do you guys have any questions for Michele?

No. Okay. I was wondering if I could bring up Mr. Carlin. This is our advisor to the Board who has been with us throughout this entire process, reviewing the RFP, reviewing the statements and then hearing the interviews. Do you have any advice or guidance that you'd like to share with us?

SENIOR ATTORNEY CARLIN: With respect to selecting who your consultant is going to be for the independent auditor?

CHAIR COHEN: Yes, sir, or maybe -- yeah. I don't care about process. Yeah.

SENIOR ATTORNEY CARLIN: I think that you're -- well, let me say, first of all, I think the process you've followed so far, the questions and the dialogue, has been great. Exactly what I like to see. You've been substantively discussing the merits of the candidates, what you liked, what you saw. I would say strategically that, you know, once you've made sure all the Committee members have had a chance to speak, if they want to, I think the next step at that point would be for someone to make a motion. And then for the Committee to further discuss the motion to try to arrive to a resolution, because what I've heard so far is that it sounds like there's some competing views on who should be first.

And so, the natural tussle of making a motion, seconding it, and discussing it will help to arrive at a -- sort of a consensus, I think. I don't know if that answers your, question but happy to be more specific if you have a -- if I didn't get at what you were asking.

CHAIR COHEN: Thank you. You didn't, but I'm just rethinking -- rewording my question. As our advisor, how would you advise us to make a selection?

SENIOR ATTORNEY CARLIN: Well, it's -- you're facing sort of an interesting dilemma, in that you have four very well-qualified candidates that any of whom would serve well in your capacity. So I think what it really comes down to is for the Committee to make a decision. I can't really make the decision for you. I can try to advise you further on it, but about, you know, which of the firms will be the one that will best serve in this capacity for you.

And this is -- you know, this is a technical capacity, right? They're going to be independently validating financial statements and a lot of other things like that. But you've -- as you were alluding to yourself, Madam Chair, there's other aspects as well about that role that's relevant to our stakeholders and others.

So I -- my suggestion would be, because I think there are differing views here. I don't think there's a consensus yet, that probably a motion is the best step forward and that will --

CHAIR COHEN: A motion -- give me an example of the language for the motion.

SENIOR ATTORNEY CARLIN: Sure. The motion would -- I mean, the motion in my mind -- I think the easiest way -- we could do it a number of different ways, but would be, you know, if it were -- if I were up there, it would be, "I move that we assign the following points for the interview score for each of the finalists." And then I'd say firm X with so many points, firm Y for so many points, and so on and so forth, and then see if that motion gets a second. If it does, the motion will be before the Committee. You all can discuss it further. If everyone seems to be in agreement, it's time to vote at that point. And if it gets a majority of the vote, then that will be the point allotment.

CHAIR COHEN: Okay. I think I'm following you. All right. Oh, Mr. Palkki wants to speak, but you two stay right there, okay?

SENIOR ATTORNEY CARLIN: Will do.

CHAIR COHEN: All right. Thank you. Go ahead, Kevin.

COMMITTEE MEMBER PALKKI: Madam Chair, there's a -- coming from education, there's a wonderful story of Henry Ford being the nice guy and always having a bulldog to do sort of in not so nice stuff that needed to get done. So I have no problems of being that bulldog today.

So, I would like to motion that we award BDO with the points of 700, Plante of -- the points of 690, KPMG with the points of 680, and Crowe with the points of 670.

CHAIR COHEN: Okay. Let's see here, if there's a question.

SENIOR ATTORNEY CARLIN: So just to be clear for process, for everyone's awareness. We've got a motion before the Committee now. It's perfectly appropriate for everyone to discuss the motion, speak to it, disagree with it, and we can see where the discussion goes from there.

CHAIR COHEN: Okay. Thank you very much.

I would like you to say that one more time, because I didn't write it down.

COMMITTEE MEMBER PALKKI: Absolutely. So I had --

CHAIR COHEN: Hold on. Slowly. Hold on.

COMMITTEE MEMBER PALKKI: Yep. Here. You want to pass that.

CHAIR COHEN: All right. Start with BDO, please, Kevin.

COMMITTEE MEMBER PALKKI: So, I motion to award BDO with the awards of 700, Plante with the points of 690, KPMG with the points of 680, and Crowe with the points of 670.

CHAIR COHEN: KPMG was 680, you said?

COMMITTEE MEMBER PALKKI: 680.

CHAIR COHEN: Okay. Thank you. And so that is a motion.

VICE CHAIR MILLER: Second.

CHAIR COHEN: Is there any discussion on the motion?

Wait. Wait. I didn't call for the -- for a second. I called for discussion.

COMMITTEE MEMBER WILLETTE: You cannot discuss until you have a second.

CHAIR COHEN: Oh, thank you.

SENIOR ATTORNEY CARLIN: I believe Mr. Miller seconded the motion, or at least I heard it anyway.

CHAIR COHEN: I didn't hear a second, but there's multiple people that want to second this. For the record, let's stick with David Miller. Okay. Now, is there any discussion, David?

VICE CHAIR MILLER: Yeah. I seconded it to get it on the floor. I agree with giving the most points to BDO. Just in terms of how I looked at it, I scored each question for each of the characters that presented. And the reason I really didn't have Plante Moran as high was because there was a couple questions where I thought they just didn't answer the question or didn't address really critical stuff like emerging AI technologies, what they really would bring to the table in terms of proprietary tools and technologies, the -- you know, the kind of information systems infrastructures. They may have all that, but they did not present that to us.

On the other hand, I made a comment after they left that, wow, that's the kind of place I would love to work some day, because their culture really was -- really came through in a, I thought, a sincere way in their presentation. But that's the only thing I would really share there.

KPMG, clearly on all the technical aspects, is hitting on all cylinders. They were right up there BDO. It's almost neck and neck. And I thought Crowe did very well too, but was a little bit second tier to BDO and KPMG. But I do agree, BDO is at the top and I can live with that set of rankings going forward.

CHAIR COHEN: Correct me if I'm wrong, many of you have served on this body for a while, were you present for the initial vote for BDO, the selection? I know you weren't Mullissa, but what -- you weren't, Jose Luis. You weren't either. No. No. You were. Three year -- six years ago. Yeah. Okay.

Jose Luis Pacheco.

COMMITTEE MEMBER PACHECO: Yes. So I'd like to -- you know, I also feel, as I mentioned before, I think BDO -- I mean, not BDO. I think Plante Moran, their culture and everything is because I was very impressed by their people and how they were brought up, as many of them coming from the public sector. But I also -- we worked with BDO in the past, and I have asked many questions regarding the internal controls and electronics and so forth with respect to that. And I also feel they are a very competent and enterprising organization that will provide us -- serve us well with our audit and our financial statements.

So I also feel -- concur with my colleagues that BDO would be a -- would suit us well, now and in the future, in addition. So those are my comments. Thank you.

CHAIR COHEN: Thank you very much. Now, Mullissa Willette, you've been noticeably quiet in this discussion, which is unusual. Would you like to share your thoughts with us? And you can say no, if you want.

Yeah. Hold on a minute.

COMMITTEE MEMBER WILLETTE: Thank you. I'm appreciating the discussion by my colleagues. I want to echo David Miller's thought that it was really wonderful to see such stellar candidates, and the ecosystem of public employment pension funds in the country has strong auditing folks, and I appreciate that, but I don't have specific -- I think that's the motion. Thank you.

CHAIR COHEN: All right. Thank you very much. So, I want to -- I agree. I think all four of the candidates were fantastic. This has actually been a very fun process. I hope you've enjoyed it as well. If I were to give out scores, I'd give Plante 700 and I'd give BDO around 400. I do think that, for me, I was also very impressed are Crowe. I'm familiar with their work.

So we can go ahead and move towards a vote at this point. A motion has been made by Member Palkki that we give point allocation to 700 to BDO, Plante Moran, 690, KPMG, 680, Crowe, 670 points. That motion has been seconded by Vice Chair David Miller.

Could we call the roll?

BOARD CLERK ANDERSON: David Miller?

VICE CHAIR MILLER: Aye.

BOARD CLERK ANDERSON: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Aye.

BOARD CLERK ANDERSON: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK ANDERSON: Ramón Rubalcava?

COMMITTEE MEMBER RUBALCAVA: No.

BOARD CLERK ANDERSON: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Yes.

CHAIR COHEN: Okay. So that motion passes.

Oh, excuse me, I see Ramón's name on the list. Forgive me. I didn't see it earlier.

COMMITTEE MEMBER RUBALCAVA: I just wanted to say -- explain my vote, if that's okay?

CHAIR COHEN: Of course.

COMMITTEE MEMBER RUBALCAVA: No. No. I do agree that all four are highly qualified. Just based on the answers and what I saw, I would have ranked them different, but I'm okay with -- I'm okay with --

CHAIR COHEN: Okay.

COMMITTEE MEMBER RUBALCAVA: -- with BDO being sitting -- having the contract being given to BDO, just for the record.

CHAIR COHEN: Understood. Understood. Okay.

COMMITTEE MEMBER RUBALCAVA: So I'm not -- I'm not against awarding the contract. I'm just --

CHAIR COHEN: You're against the ranking.

COMMITTEE MEMBER RUBALCAVA: The pointing --

CHAIR COHEN: Allocation.

COMMITTEE MEMBER RUBALCAVA: -- the ranking, and the discussion. That's all.

CHAIR COHEN: Understood. Thank you very much for that clarification. It looks like this vote is final and the contract will be awarded to BDO, is that correct? Did I under -- okay.

SENIOR ATTORNEY CARLIN: Apologies. Just wanted to make sure that we give time to bring the firms back in while staff is calculating -- tabulating the scores after the motion -- now that the motion is done.

CHAIR COHEN: Okay. Thank you very much. Okay.

Welcome back in. You should take your seats. We're going to start to turn on the livestream. For those that are reviewing this meeting via livestream, we've asked the finalists to come back into the chamber. As they gather their seats, our staff is now completing the calculation for the total score. And at this time, I'd like to ask Justin Heeb, CalPERS Contracts and Procurement Manager, to please announce the final total score for each finalist.

OPERATIONS SUPPORT SERVICES ASSISTANT DIVISION CHIEF HEEB: Thank you, Madam Chair. I will now read the interview scores for each of the finalists in alphabetical order: BDO USA, 700 points for their interview score; Crowe, LLP, 670; KPMG, 680 points; Plante Moran, PC received 690 points for their interview score. Combined with the preliminary technical scores, BDO USA received a total score of 1,050 points including incentive points; Crowe, LLP received a total score of 1,010.96 points; KPMG received a total score of 1,018.68 points; and Plante Moran received a total score of 1,034.59 points.

Madam Chair, the finalist with the highest total score is BDO USA, PC.

CHAIR COHEN: All right. Thank you very much. Thank you, everyone, for your participation in this process.

Now, it's time to -- now, it's time for a motion. Wait a minute guys. Wait a minute.

I move that the Committee recommend to the Board that the Board awards a contract to BDO as the highest ranking finalist, subject to final negotiations and satisfaction of all requirements, and direct staff to begin contract negotiations for the contract with BDO. If staff, in its discretion, concludes that negotiations are unsuccessful, staff shall begin contract negotiations with the -- with Plante Moran, the next highest scoring finalist.

Is there a second?

COMMITTEE MEMBER PACHECO: Second.

CHAIR COHEN: Second by Jose Luis Pacheco.

Is there any discussion on this motion?

All right. Seeing none, let's take the vote.

BOARD CLERK ANDERSON: David Miller?

VICE CHAIR MILLER: Aye.

BOARD CLERK ANDERSON: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Aye.

BOARD CLERK ANDERSON: Kevin Palkki?

COMMITTEE MEMBER PALKKI: Aye.

BOARD CLERK ANDERSON: Ramón Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Aye.

BOARD CLERK ANDERSON: Mullissa Willette?

COMMITTEE MEMBER WILLETTE: Yes.

CHAIR COHEN: Excellent. This motion passes.

And I want to remind all members of the Committee and the finalists of the restricted contact policy under Government Code section 20153.

Okay. The next agenda item is 4a. It's the summary of Committee direction. And that -- there we go.

CHIEF COMPLIANCE OFFICER FEIN: I noted no direction, Madam Chair.

CHAIR COHEN: All right. Thank you very much.

That brings us to Agenda Item 4b. Is there any public comment?

Okay. Seeing no public comment, this meeting of the Risk and Audit Committee is adjourned. Thank you very much, ladies and gentlemen.

Oh, okay. Thank you. We're adjourned still.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Risk & Audit Committee open session meeting adjourned.)

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 18th day of September, 2025.

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Certified Shorthand Reporter
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