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The Board of Administration
California Public Employees' Retirement System
400 Q Street
Sacramento, CA 95811

To the Board of Administration:

In planning and performing our audit of the financial statements of California Public Employees' Retirement System ("CalPERS" or the "System") as of and for the year ended June 30, 2025, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, we considered the System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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

Our consideration of internal control was for the limited purpose described in the second paragraph of this letter and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Board of Administration and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the outstanding cooperation from your staff that our personnel received during the audit of the System's financial statements.

Respectfully,



Appendix I

Current Year Internal Control - Control Deficiency

We have communicated to management of the System about a control deficiency that was operational observation that was identified as a result of our audit that we did not consider to be a material weakness or significant deficiency as follows:

Automated Real Estate Investment System (AREIS) Approver has Inappropriate Access to the Developer Role

BDO observed that an approver of changes to be released to production had inappropriate access to the developer role of the Automated Real Estate Investment System (AREIS). The development access allowed this user to develop code modifications to AREIS.

We observed a user had the developer role access which grants the ability to develop logic or code and then access to approve/commit this code for release to production. This results in a segregation of duties conflict because it provides the individual with the potential ability to modify the report logic without a secondary approval. Although CalPERS has segregated developers and deployers on the application level, having access to the development and be an approver could bypass Azure DevOps system functionality, which results in a segregation of duties conflict. Additionally, no audit is being performed of the system change log nor database log-in access report to check for and investigate anomalies. CalPERS does have a configuration that requires code changes to be approved by a second user that was observed to be set to require the second approver, but there was no audit log to prove that this configuration was not changed during the audit period.

Management has removed the developer access from the user who had inappropriate access to the development environment. To strengthen the change management control environment, it is recommended that the change logs be reviewed on a regular basis for appropriateness by an individual who does not have approver access to AREIS.

Management's Response

Management acknowledges the control deficiency identified regarding inappropriate access for one user having both the developer and approver roles within AREIS. We recognize that this combination presents a segregation of duties conflict and presents a potential ability to modify the report logic without a secondary approval. Upon notification, management immediately removed the developer role access from the affected user, ensuring that no individual currently holds both developer and approver roles within AREIS. Additionally, management performed a lookback analysis and determined that no changes were pushed to production by this user. Management also conducted a comprehensive review of all user access rights in AREIS to confirm no other users have conflicting roles in the AREIS production application.

Going forward, in the absence of system-generated audit logs, management will perform user access reviews biannually along with a review of all users/roles in the AREIS application to identify and promptly remediate any segregation of duties conflicts. These reviews will be conducted by an individual independent of the development and approval processes to ensure objectivity. Any anomalies or unauthorized changes identified during these reviews will be investigated and documented.