

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

TUESDAY, NOVEMBER 18, 2025
1:01 P.M.

JAMES F. PETERS, CSR
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APPEARANCES

COMMITTEE MEMBERS:

Malia Cohen, Chair

David Miller, Vice Chair

Fiona Ma, represented by Frank Ruffino

Jose Luis Pacheco

Kevin Palkki

Ramón Rubalcava

Mullissa Willette

BOARD MEMBERS:

Michael Detoy

Lisa Middleton

Yvonne Walker

STAFF:

Marcie Frost, Chief Executive Officer

Michele Nix, Chief Financial Officer

Robert Carlin, Senior Attorney

Beliz Chappuie, Chief Auditor

Kami Niebank, Deputy Chief Compliance Officer

Prashant Yerramalli, Special Advisor

ALSO PRESENT:

Craig Christie, BDO

APPEARANCES CONTINUED

ALSO PRESENT:

Bill Kim, BDO

Keith Miller, BDO

Dipika Nagin, BDO

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PROCEEDINGS

CHAIR COHEN: Good afternoon, ladies and gentlemen. Welcome back. I want to welcome you to open session of the Risk and Audit Committee. My name is Malia Cohen. I'm chair of this Committee and to my right is the Vice Chair, Mr. Miller. Could we please do a roll call.

BOARD CLERK ANDERSON: Malia Cohen.

CHAIR COHEN: Present.

BOARD CLERK ANDERSON: David Miller.

VICE CHAIR MILLER: Here.

BOARD CLERK ANDERSON: Frank Ruffino for Fiona Ma.

ACTING COMMITTEE MEMBER RUFFINO: Present.

BOARD CLERK ANDERSON: Jose Luis Pacheco.

COMMITTEE MEMBER PACHECO: Present.

BOARD CLERK ANDERSON: Kevin Palkki.

COMMITTEE MEMBER PALKKI: Good afternoon.

BOARD CLERK ANDERSON: Ramón Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Present.

BOARD CLERK ANDERSON: Mullissa Willette.

COMMITTEE MEMBER WILLETTE: Here.

CHAIR COHEN: Thank you very much. And just as a -- at the top of the order of business, I just want to recognize my two colleagues, Jose Luis Pacheco and Frank Ruffino who today is your last meeting -- Committee

1 meeting.

2 COMMITTEE MEMBER PACHECO: Yes.

3 CHAIR COHEN: Not you, Frank.

4 ACTING COMMITTEE MEMBER RUFFINO: Mine is in
5 January.

6 CHAIR COHEN: Oh, sorry. I'll come back.
7 All right, Frank is like what are you talking
8 about?

9 Frank.

10 Jose Luis, thank you very much. It's been a
11 pleasure to serve with you. I appreciate your work on
12 this Committee.

13 All right. With that, let's go ahead and call
14 the next order, the Executive Report.

15 SPECIAL ADVISOR YERRAMALLI: Good afternoon,
16 Madam Chair, Vice Chair, and Committee Members. My name
17 is Prashant Yerramalli. For those of you who haven't had
18 a chance to meet yet. I'm currently the special
19 consultant in the Legal Department and I -- hopefully
20 after I pass the Bar exam, I'll be the General Counsel of
21 this fine organization.

22 CHAIR COHEN: He's joking, right?

23 SPECIAL ADVISOR YERRAMALLI: I am not.

24 CHAIR COHEN: You haven't passed the Bar?

25 SPECIAL ADVISOR YERRAMALLI: I've passed many

1 Bars, just not the California Bar.

2 CHAIR COHEN: Okay. Thank you for that
3 clarification.

4 (Laughter).

5 SPECIAL ADVISOR YERRAMALLI: Today, you'll
6 receive presentations of the independent auditor's report
7 for fiscal year 2024 and '25, as well as a review of the
8 independent auditor's management letter. The next Risk
9 and Audit Committee meeting is scheduled for February 2026
10 and includes the midyear plan update on the 2025-2026 ECRG
11 annual plan.

12 That concludes my report, and I'm happy to answer
13 any questions that you might have.

14 CHAIR COHEN: All right. Thank you very much.
15 We appreciate that. You did a great job.

16 SPECIAL ADVISOR YERRAMALLI: Yeah.

17 CHAIR COHEN: Thank you.

18 Colleagues, any questions or any comments?

19 All right. Seeing none. Is there a motion?

20 VICE CHAIR MILLER: Move approval.

21 COMMITTEE MEMBER PACHECO: Second.

22 CHAIR COHEN: All right. A motion made Mr.
23 Miller seconded by Mr. Pacheco.

24 Do we need to take a roll call vote?

25 No. Okay. All those in favor?

1 (Ayes.)

2 CHAIR COHEN: All right. By a full house, by all
3 of them saying "aye". What is that?

4 Appreciate it. Thank you.

5 Next item. Information consent item.

6 COMMITTEE MEMBER PACHECO: I move it.

7 CHAIR COHEN: Okay.

8 COMMITTEE MEMBER PACHECO: Oh, there is no
9 action.

10 CHAIR COHEN: There is no action on that one.

11 Okay. Madam Clerk, next item is Item number 5.
12 It's an action item, independent auditor's report fiscal
13 years '24-'25. It's good to see you, ma'am. How are you?

14 CHIEF AUDITOR CHAPPUIE: Hi. Good afternoon,
15 Madam Chair, members of the Committee. Beliz Chappuie,
16 Office of Audit Services.

17 Agenda Item 5a is an action item. Staff requests
18 that the Risk and Audit Committee approve the Board's
19 independent financial statement auditor BDO's audit
20 reports for the fiscal year ending June 30, 2025. I want
21 to turn it over to the BDO staff here who are presenting
22 with me today.

23 BILLY KIM: Thank you.

24 Hello, Chair, Vice Chair, and Committee members.
25 Billy Kim BDO Principal, and engagement leader of the

1 external audit team. With me today is Keith Miller, BDO
2 Principal who leads our investment audit work for the
3 audit, as well as Dipika Nagin, who is our audit director.
4 She assists me in the overall leading of the team. On top
5 of that, we also have Craig Christy, who is also on the
6 call. He is information systems principal. He assists me
7 in leading the IT work associated with the audit as well.

8 If we could jump to slide five, please

9 [SLIDE CHANGE]

10 BILLY KIM: Yeah, the objective of our audit was
11 to provide reasonable and not absolute assurance as
12 relates to whether the financial statements are free of
13 material misstatements. And the scope of our audit
14 actually includes the basic audited financial statements
15 that you've approved today. And that specifically related
16 to the fiscal year ended dated June 30th, 2025.

17 And this includes the financial statements
18 associated with the fiduciary funds, as well as the
19 proprietary funds. And so we expect to issue a clean
20 audit opinion over these statements, as well as also a
21 report on the internal controls over financial reporting
22 and compliance. And those drafts have been included in
23 your materials, Agenda Item 5a.

24 Also, all records and information, which we
25 request a lot of during the audit, has been made available

1 for us from management. And we received full cooperation
2 from them.

3 Next slide, please.

4 [SLIDE CHANGE]

5 BILLY KIM: Now, these items here are factors of
6 consideration regarding the quality of management's
7 financial reporting process. And as part of our report to
8 you, we've included a discussion on each of these
9 following items.

10 Next slide, please.

11 [SLIDE CHANGE]

12 BILLY KIM: Now, in June, we also reported to you
13 the results of our risk assessment procedures. And this
14 included three areas of significant risk, which are on
15 this slide as you see. And basically, these are areas
16 that we consider that requires more audit attention than
17 other areas.

18 And so the first one is valuation of investments
19 specifically over private equity and real asset
20 investments. Management override of internal controls
21 over financial reporting. Now, this is a risk that is
22 considered as a default significant risk for all of our
23 engagements. And then three is a valuation of estimated
24 future policy liability, specifically for the Long-Term
25 Care Fund.

1 Now, these risks have remained unchanged, but we
2 wanted to ensure that we report that to you.

3 Okay. Next slide, please.

4 [SLIDE CHANGE]

5 BILLY KIM: Now, as part of our audit, we perform
6 thorough, very extensive audit procedures. There's a lot
7 of work that goes -- involved in the audit. And again,
8 this is to adhere to performing a quality audit. And to
9 the credit of management, there were no corrected or
10 uncorrected misstatements proposed by BDO, as part of the
11 overall audit.

12 Can we move to slide 10, please.

13 [SLIDE CHANGE]

14 BILLY KIM: Now, as part of our audit, we also
15 assessed the internal control environment. And this is to
16 obtain an understanding of the related internal controls.
17 And also, that does include assessing the design and
18 implementation of relevant controls. And based upon our
19 work we did not identify any control matters that raised
20 to a level of material weakness or significant deficiency.

21 Now, I'm going to be passing it off to Keith and
22 Dipika, they'll be discussing in more detail about the
23 work performed, particularly over the significant risk
24 areas that I have mentioned, as well as other areas of
25 focus. Now, starting with Keith, can we move to slide 12,

1 please.

2 [SLIDE CHANGE]

3 KEITH MILLER: Thank you, Billy. So regarding
4 valuation of the area of significant risk identified for
5 our audit related to the private equity and the real
6 assets investments. These comprise the PE and real estate
7 interests in underlying investee funds that are managed by
8 external fund managers. A summary of our procedures,
9 sorry, is shown on the right side of this slide. The PE
10 and real estate investments are typically valued based on
11 the net asset value per share computed by each investee
12 fund following GAAP guidelines or what, in accounting, we
13 call the practical expedient.

14 Most of the funds that CalPERS invests in are
15 audited and so we review these underlying fund audits
16 during our own audit process. CalPERS uses the reported
17 June 30th mark or ending capital statement balance on that
18 date from each investment as its year-end valuation, which
19 means that CalPERS doesn't need to make significant
20 estimates or judgments in determining the valuation of
21 each of those investments. Management updates the value
22 of each investment quarterly, based on the capital
23 statement that is received from each of those funds.

24 Real asset funds typically have a June 30th
25 year-end, which is aligned with CalPERS year-end. And the

1 private equity funds often have a December 31st year-end.
2 So during our audit, especially for the private equity
3 investments, we consider the time gap between the latest
4 fund audit we have, which will be as of June -- as of
5 December 31, and CalPERS own June 30th valuation.

6 So our audit work, as summarized in the bullet
7 points on the slide, includes rolling forward the
8 investment values from December 31 to June 30th, and
9 verifying capital activity. And we confirm all of these
10 amounts, including the June 30th ending balance with each
11 of the underlying funds directly via a confirmation.

12 Also, our own internal valuation team assists us
13 on the audit team by analyzing the performance of these
14 investments for the first half of 2025 to ensure the
15 values recorded by CalPERS are all reasonable. Based on
16 the work we've performed, we do not find any issues to
17 report to you today.

18 And with that, I think I'll hand it to Dipika.

19 DIPIKA NAGIN: Yep. Thanks, Keith.

20 Management -- actually, next slide, please.

21 [SLIDE CHANGE]

22 DIPIKA NAGIN: Management override of internal
23 controls over financial reporting is a standard
24 significant risk, as Billy mentioned. This typically
25 applies to all organizations. It represents the potential

1 for material misstatement due to fraud, regardless of the
2 strength of the existing controls in place.

3 To address this risk, we perform various
4 procedures. We held fraud inquiries across management and
5 also including with the executive team. We conducted
6 walk-throughs to gain an understanding of internal
7 controls over the key cycles. We review tip line
8 activity. We performed targeted journal entry testing
9 using data analytics, setting and using risk-based
10 criteria for our selections.

11 We also incorporate unpredictability into our
12 work. An example of this this year, on top of our normal
13 analytics that we do over investment expenses, this year
14 we added a sample test where we sampled Investment Manager
15 fees and agreed those fees back to relevant source
16 documents, and we noted no issues there.

17 We also sent out external legal confirmations and
18 completed risk-based testing over certain accounts. So
19 these audit steps are designed to address the risk and
20 uphold the integrity of financial reporting.

21 Next slide, please.

22 [SLIDE CHANGE]

23 DIPIKA NAGIN: So the valuation of estimated
24 future policy liability is also a significant risk area.
25 And this is particularly due to potential for material

1 misstatement, if management uses improper assumptions,
2 most notably regarding the discount rate, which is a key
3 assumption. So to address this, we conducted
4 walk-throughs of controls over the policy liability
5 estimation process. We also reviewed the actuarial
6 valuation report and management assumptions, specifically
7 regarding the discount rate, and with the support from BDO
8 actuarial specialists as well.

9 We compared management's valuation to third-party
10 parallel reports for consistency. We completed
11 retrospective reviews of significant estimates especially
12 around the discount rate. We performed analytical
13 analysis, as well as sample testing, over the underlying
14 data used within the models to validate the completeness
15 and accuracy of that data.

16 Additionally, our actuarial specialists
17 independently evaluated various assumptions, including the
18 discount rate, using their own models to determine the
19 reasonableness of the liability. These procedures
20 ultimately help ensure the liability is appropriately
21 valued and reported.

22 Next slide, please.

23 [SLIDE CHANGE]

24 DIPIKA NAGIN: Okay. In addition to the
25 significant risks previously discussed, I will also

1 highlight a few other areas of focus, due to their
2 materiality, complexity, or the level of judgment
3 involved.

4 So for the health care estimated insurance claims
5 due, our work included sample testing, retrospective
6 review, actuarial evaluation, analytics and a
7 recalculation of the liabilities. Specifically for
8 incurred but not reported liabilities, our actuaries
9 review every medical and pharmacy claims data model. We
10 also confirm a hundred percent of the liability balances
11 with the third-party administrators for all HMO plans.

12 To ensure completeness and accuracy, we perform
13 sample testing on the data inputs for each of the claim
14 data reports as well. For pension and OPEB liabilities,
15 we tested the census data for completeness and accuracy.
16 We performed actuarial reviews of assumptions for the
17 pension actuarial report.

18 And then for the remaining areas of focus that
19 are listed, we perform a mix of testing, including testing
20 the data sets used for completeness and accuracy, data
21 analytics, and sample testing. We also perform a review
22 of internal controls over financial -- key financial
23 systems as part of our audit.

24 Slide 17, please.

25 [SLIDE CHANGE]

1 DIPIKA NAGIN: Okay. CalPERS significant
2 accounting practices and policies are described in note 2
3 of the financial statements. These practices are
4 appropriate and comply with relevant standards.

5 Recently issued accounting pronouncements are
6 also summarized in note two. This year, there were two
7 new standards that was issued by the Governmental
8 Accounting Standards Board, GASB 101, and GASB 102. So
9 CalPERS adopted both GASB 101 on compensated absences,
10 which had no material impact. And GASB 102 related to
11 certain risk disclosures, which did not require any
12 additional disclosures. There were no other changes in
13 significant accounting policies or practices for the year
14 ended June 30, 2025.

15 The notes of the financial statements include
16 disclosures on critical accounting estimate, including
17 those for private equity, real asset investments,
18 Long-Term Care Fund liabilities, health care insurance
19 claims, and pension liabilities. Management's process and
20 assumptions remain consistent year over year.

21 Slide 20, please.

22 [SLIDE CHANGE]

23 DIPIKA NAGIN: So slide 20 contains or other
24 required communications. So in addition to our main audit
25 findings, there are several other communications that we

1 must share as part of our responsibilities to you. I will
2 highlight a few of these. The first one, there was no
3 significant changes to our planned audit strategy or the
4 significant risks we previously communicated.

5 Second, we utilized our internal firm
6 specialists, which included our investment valuation team
7 and our actuarial specialist as well.

8 Lastly, there were no disagreements with
9 management or difficulties encountered during the audit.

10 With that, I'll pass it back to Billy to take us
11 through the rest of the presentation. Thank you.

12 BILLY KIM: Thanks.

13 Slide 21, please.

14 [SLIDE CHANGE]

15 BILLY KIM: Now, this slide here is related to
16 auditor independence. And this is an area we take
17 seriously, as we're required by our professional standards
18 to be independent of our clients, and this includes at the
19 firm level, also includes at the individual level as well
20 for each of our team members. And so we're always
21 continuously monitoring and assessing our independence
22 throughout the audit for any potential matters or
23 questions that are raised, and we assess them. That
24 includes a question that was raised during our work, but
25 was cleared by a response from CalPERS legal counsel, as a

1 issue that's not related to independence.

2 And so we are happy to reaffirm to you, as our
3 external auditors, that we are independent of CalPERS.

4 Slide 23, please.

5 [SLIDE CHANGE]

6 BILLY KIM: This slide contains information about
7 BDO's quality management. And this is just to remind you
8 that we are subject to quality management standards and we
9 strive to ensure that we adhere to these quality
10 standards.

11 Next slide, please.

12 [SLIDE CHANGE]

13 BILLY KIM: Now, this last slide is a resource to
14 you as a Board of CalPERS and includes a link for Board
15 educational resources. This includes thought leadership,
16 as well as insights, webcasts, and other resources.

17 That concludes our plan presentation. Thank you.

18 CHAIR COHEN: Thank you very much. I have a
19 quick question about the resource that's available to us.
20 You said this is -- how do we access this information?

21 BILLY KIM: Oh, yeah. There's a -- those are
22 actual links.

23 CHAIR COHEN: Hyperlinks.

24 BILLY KIM: Yeah, hyperlinks, yes.

25 CHAIR COHEN: All right. Thank you very much.

1 BILLY KIM: So those are all available
2 complimentary, right? It's just something that's
3 available to the public and to our clients.

4 CHAIR COHEN: Thank you.

5 Colleagues, do you have any questions?

6 Mr. Ruffino.

7 ACTING COMMITTEE MEMBER RUFFINO: Thank you.

8 Am I on?

9 Yeah. Thank you, Madam Chair and than you for
10 the presentations. I heard some great terms, "clean
11 opinion", "no significant deficiencies", "no issues to
12 report." Great phrases in the audit world. But for
13 clarity, I'd like to ask just one more time whether there
14 were any observations from the audit that you can think of
15 related to data integrity, cybersecurity controls, or
16 financial system reliability that the Board should be
17 aware of, particularly given the ongoing modernization
18 efforts? Any thoughts on that?

19 BILLY KIM: Yes. So overall, as relates to our
20 audit, we do cover the information technology controls as
21 part of our review. So we look at, in terms of scope, key
22 financial systems. And that does include cybersecurity
23 controls as well, just to assess and understand them as
24 well. And as part of that, we do actually have a IT
25 finding that is in our management letter that we're going

1 to be presenting to you shortly, and that is related to a
2 control matter that we wanted to raise to your attention.

3 But outside of that though, there is no specific
4 issues that we felt necessary to raise or any other
5 control issues or concerns related to that area. And we
6 do have Craig Christie on the call who is our information
7 systems principal.

8 Craig, do you want to add anything else to that?

9 CRAIG CHRISTIE: No, I think the IT environment
10 is a strong environment for the audits that we've been
11 doing. It's consistent. We do sample testing in many
12 areas and it's consistent that the -- it's operating at an
13 effective level.

14 We also do, as Billy mentioned, a detailed
15 cybersecurity assessment, and there is no concerns
16 identified during those reviews.

17 ACTING COMMITTEE MEMBER RUFFINO: Excellent
18 answer. Thank you. And thank you, too. You know, when
19 you do an audit, obviously it takes a team, both
20 internally and externally. So thank you to the entire
21 team who works diligently making sure it keeps us on
22 target. Thank you. Thank you, Madam Chair.

23 CHAIR COHEN: Of course. Mr. Jose Luis Pacheco.

24 COMMITTEE MEMBER PACHECO: Thank you, Madam
25 Chair. And thank you again for your presentation. Can

1 you hear me now better?

2 Yeah. I just want to ask you a question about
3 the -- one of the areas of risk that you identified, a
4 significant area, the evaluation of the investments. And
5 I'm just curious, how did you -- how did you select the
6 sample -- the sample selection process on selecting which
7 of the investments to look at and how did you -- again,
8 how did you assess the evaluation? You looked at the
9 audit reports, but, you know, since there are different
10 dates, for different ones, can you just elaborate a little
11 bit more about that?

12 KEITH MILLER: Yeah, sure. So in terms of
13 selecting which investments to look at, we have a
14 proprietary in-house sampling tool, which will take
15 materiality metric's value of the entire investment
16 population metrics. And that will essentially tell us how
17 many items in the entire population that we should test,
18 that the system considers to be representative of the --
19 of the population.

20 And then within that, we will select a number of
21 the largest value investments, you know, irrespective of
22 whether the sampling tool includes them in its -- in its
23 sample size. So we have -- so we have measures of the
24 largest plus also a random number of investments based on
25 the -- on the sample size that our sampling tool selects.

1 Within that also, we skew the sample population
2 toward private equity, because that's both the largest
3 balance compared to real estate, but also because, as you
4 mentioned and, you know, we talk about often, private
5 equity typically has a December 31 year-end. And so it's
6 causing us to catch more of those investments that we have
7 the six-month time lag for, so we then -- our testing that
8 time gap and the appropriateness of the change in
9 valuation over that period.

10 So all of that is designed to pick the most
11 meaningful sample of investments to test, so that we are
12 covering those issues we've talked about, including the
13 six-month lag between the last audit and CalPERS year-end.
14 But tell me if I missed a part of the question.

15 COMMITTEE MEMBER PACHECO: No, you actually --
16 that's -- no, you did very well on that.

17 KEITH MILLER: Perfect. Okay.

18 COMMITTEE MEMBER PACHECO: I was just -- and
19 thank you for elaborating on the -- on the gap, because
20 that's -- that it is significant.

21 KEITH MILLER: Yes.

22 COMMITTEE MEMBER PACHECO: There's a lag in
23 how --

24 KEITH MILLER: Yes.

25 COMMITTEE MEMBER PACHECO: -- we evaluate it,

1 because we have an -- fiscal end year of June 30th.

2 KEITH MILLER: Correct.

3 COMMITTEE MEMBER PACHECO: And many of these
4 private equities are on that December 31st.

5 KEITH MILLER: Correct.

6 COMMITTEE MEMBER PACHECO: And another question
7 that you brought up as well is that the audit statements
8 from the private equity funds are they certified? Are
9 they audited? They're audited already.

10 KEITH MILLER: Correct. Correct. They are. And
11 they are -- the private equity funds use something called
12 Topic 946 under the investment -- under the audit rules,
13 which -- accounting rules, sorry, which in plain English
14 is accounting specifically for investment funds. And so
15 those financial statements include, you know, investment
16 focus. They are largely, fully covering the nature of
17 investment. So it's different to say if you held an
18 investment directly in a portfolio company, for example,
19 where the gap might be talking about fixed assets or other
20 things that don't drive straight at valuation. But for
21 the private equity investments, because those -- under
22 Topic 946, those investments carry all of their assets and
23 liabilities already up fair value. So it -- that's what
24 removes a lot of the judgment, because if you know that
25 the fair value of the collection of assets and liabilities

1 is, let's say, \$100 million and you thought that you own 25
2 percent of that investment, then through that, you can
3 simply show, that your investment under the practical
4 expedient has a value of 25 million.

5 And so, one extra thing I can add is is so when
6 we're reviewing those audited financial statements, what
7 we're really looking for is anomalies and things within
8 the footnotes that might suggest there's more afoot with
9 this investment fund that we might want to know about.
10 So, for example, you know, litigation, things like that
11 that might -- that might -- and other going concern issues
12 that might suggest that the -- that the investment value
13 is different from that -- from that kind of simple
14 practical expedient calculation that I mentioned. But
15 there are other matters that we look at as we're going
16 through those financial statements, so largely to make
17 sure that that simple practical expedient valuation, that
18 there aren't other significant issues that should also be
19 factored into the valuation that might not have been and
20 so -- and so you'd want -- you'd want to make sure that
21 basically that that type of issue is not present.

22 COMMITTEE MEMBER PACHECO: Excellent. Well,
23 that's excellent then. And thank you very much for
24 that --

25 KEITH MILLER: Sure.

1 COMMITTEE MEMBER PACHECO: -- that comprehensive
2 explanation of the -- of the audit reports and so forth.
3 And I just want to compliment the entire team of your --
4 of your incredible work and having an unremarkable report,
5 which is very -- which is very good for all of us.

6 And just last question is when was the last time
7 we've had a clean -- a clean report?

8 BILLY KIM: You had a clean report last year, as
9 well.

10 COMMITTEE MEMBER PACHECO: Last year as well.

11 BILLY KIM: Yeah.

12 COMMITTEE MEMBER PACHECO: Okay. So excellent.
13 Well, thank you very much.

14 CHAIR COHEN: Thank you very much. I just want
15 to ask a couple questions before. You've presented a
16 clean report. This is some great. I'm just wondering if
17 we also are paying attention to some inherent risks that
18 are within CalPERS. We do a lot talking about control
19 risk, guardrails, ensuring that the decisions are made
20 with integrity and the investments are solid and fully
21 vetted.

22 What about detection risks? Does that also
23 incorporate it? I don't -- we didn't hear very much about
24 it. The findings --

25 BILLY KIM: Yeah, the --

1 CHAIR COHEN: Wait. The findings focused on
2 significant risk. I want to maybe dial back a little bit
3 and see what other -- what other risks are out there that
4 didn't make it into the presentation.

5 BILLY KIM: Yeah, as it relates to our risk
6 assessment process, we do look at all different types of
7 risk, so that does start with inherent risks. That does
8 also then goes to the internal controls of detection risk.
9 Is it properly detecting any specific errors, so that they
10 could be corrected before the financial statements are
11 issued for instance, right?

12 So our understanding of the internal controls
13 covers the full gamut. So it does include detection
14 controls as well, so that includes like monitoring type
15 controls, and throughout each cycle that is scoped in for
16 audit work, whether that's investments, whether that's
17 pension liabilities, what -- you know, all these premiums
18 and et cetera. We are assessing and trying to understand
19 what all the internal controls are, what the lay of the
20 land is, and if they're appropriately addressing each of
21 those specific risks that ultimately impact what gets on
22 to the financial statements.

23 CHAIR COHEN: Um-hmm.

24 BILL KIM: So whether that's preventative
25 controls, whether that's monitoring or detective controls,

1 and we end up going through and assessing. And if we
2 consider them to be relevant or, in other words to say
3 that they're key, we would then actually get examples of
4 them and just ensure that they're actually appropriately
5 designed and implemented.

6 CHAIR COHEN: Do you guys do or study reputation
7 risks in your audit?

8 BILLY KIM: A reputation --

9 CHAIR COHEN: A reputation risk, the effects of
10 just kind of the external, like the media articles. I
11 don't know. I'm asking you.

12 BILLY KIM: Yes. No. As part of our audit, we
13 do look at anything publicly released --

14 CHAIR COHEN: Okay.

15 BILL KIM: -- about our clients. We -- that is
16 part of our overall understanding of the organization, and
17 anything that's out there, and is it something that we
18 should be considering as part of our risk assessment
19 process. And all of that is actually thoroughly
20 documented as well, as we go through that process as well.

21 CHAIR COHEN: Okay. So I know you have -- only
22 have a brief few minutes to make a presentation, so you're
23 kind of taking the high top level. And most people just
24 want to know what are our significant risks. I was just
25 wanted to take a moment to dive down a little bit

1 deeper -- a little deeper and figure out where some of the
2 other risks are. Maybe risk is a strong word, some of our
3 other areas of vulnerability. Did you find any?

4 BILLY KIM: No. I mean -- well, there is -- when
5 we one say risks, there are risks that exist, but that
6 doesn't necessarily mean that's going to result in an
7 issue, right? And so, from a financial reporting
8 perspective, no, we did not -- when we -- when we -- we do
9 procedures for each of these risks that we identify and to
10 ensure that there is nothing that ultimately comes about
11 that has a material impact --

12 CHAIR COHEN: Um-hmm.

13 BILL KIM: -- on the financial statements. And
14 so, yeah, there's nothing of that sort that we're here to
15 report to you that we identified.

16 CHAIR COHEN: Great. Yeah, you summed it up.
17 I'm looking for any material weakness --

18 BILLY KIM: Yeah.

19 CHAIR COHEN: -- but it sounds like there aren't
20 any.

21 Great.

22 CHAIR COHEN: Anyone else would like to speak?

23 COMMITTEE MEMBER PACHECO: Call it.

24 CHAIR COHEN: You'd like to call it. Okay.

25 Please be my guest.

1 COMMITTEE MEMBER PACHECO: I'd like to approve
2 the independent auditor's report.

3 CHAIR COHEN: All right. There's been a motion
4 to approve the independent auditor report by Member Jose
5 Luis Pacheco.

6 ACTING COMMITTEE MEMBER RUFFINO: (Hand raised).

7 CHAIR COHEN: And it's been seconded by Mr. Frank
8 Ruffino.

9 Can we take that without objection, colleagues?

10 Without objection, the motion passes.

11 Let's hear the next item

12 CHIEF AUDITOR CHAPPUIE: Madam Chair, 5b is also
13 an action item.

14 CHAIR COHEN: Um-hmm.

15 CHIEF AUDITOR CHAPPUIE: Staff requests that the
16 Risk and Audit Committee approve the Board's independent
17 financial statement auditor BDO's draft management letter.
18 And I want to turn it back over to Billy.

19 BILLY KIM: Dipika.

20 DIPIKA NAGIN: Dipika here. Good afternoon,
21 Chair, Vice Chair, and members of the Committee. I will
22 cover the draft management letter here. So during the
23 planning and execution of our audit of the CalPERS
24 financial statements for the fiscal year 2025, we
25 evaluated the internal controls over financial reporting.

1 Now this evaluation is conducted to inform our audit
2 procedures aimed at expressing an opinion on the financial
3 statements, rather than to assess the effectiveness of the
4 internal controls themselves.

5 Earlier, we provided an overview of the control
6 findings categories. And we did not identify any material
7 weaknesses in our audit this year. However, we did note a
8 control deficiency related to the Automated Real Estate
9 Investment System, or otherwise known as AREIS.

10 Specifically, we observed that one user had both
11 developer access and approver access. So this represents
12 a segregation of duties conflict and could allow for code
13 changes to be made and approved by the same individual.
14 While CalPERS does require a second approver for code
15 changes, there was no audit log for us to confirm this
16 configuration remain unchanged and turned on during the
17 audit period.

18 And no regular monitoring review of change logs
19 or database access reports were being performed. So with
20 that, management promptly responded by removing the
21 developer access from the affected user. And confirmed
22 that no unauthorized changes occurred. They also reviewed
23 all user access rights to ensure that no other conflicts
24 existed.

25 Going forward, management will conduct

1 independent biannual user access reviews and role checks
2 in AREIS to promptly identify and address any segregation
3 of duties issues. This concludes our remarks on the
4 management letter. We're now open to any questions that
5 you may have.

6 CHAIR COHEN: Jose Luis Pacheco.

7 COMMITTEE MEMBER PACHECO: Yes. Thank you, Madam
8 Chair. And, yeah, this is a -- this is a really
9 interesting area, because this is kind of like what I --
10 this is my job, what I do as SharePoint developer,
11 administrator. In terms of the AREIS, is it hosted on the
12 Azure system, because that's what I -- I noticed it was
13 bypassing the Azure DevOps system. And further more, with
14 respect to the all -- respect to the administration rules,
15 were there -- you also identifying any deficiencies or any
16 access with the global administration? Did you look at
17 that level, because it's another area of access.

18 BILLY KIM: We're going to have -- go ahead
19 Craig.

20 CRAIG CHRISTIE: Craig Christie, the IT principal
21 on this. They use Azure DevOps for kind of code movement
22 have AREIS --

23 COMMITTEE MEMBER PACHECO: Um-hmm.

24 CRAIG CHRISTIE: -- which is where the issue was
25 identified, related to developer access. We do

1 specifically look at administrator access across the
2 environment. We didn't have any issues in the
3 administration, so that's -- that's a good thing.

4 COMMITTEE MEMBER PACHECO: That's really good.

5 CRAIG CHRISTIE: That's strongly supported. This
6 was just specific to someone inappropriately getting
7 access to the developmental environment.

8 COMMITTEE MEMBER PACHECO: And -- no that's
9 great. And now that we have identified that with the
10 remedy, are we -- are new logging -- we have logs and so
11 forth to identify and trail on who has access to what and
12 when?

13 CRAIG CHRISTIE: Management determined not to
14 implement the log. Sometimes when you implement logs, it
15 does have a performance impact on the system. And I
16 believe AREIS is in the process of being migrated to a new
17 system in 2026. We felt that as long as they are
18 monitoring that development group and making sure that
19 everybody in there is appropriate, and doesn't have a
20 conflict with the approvers, it's a sufficient monitoring
21 control to make sure it doesn't occur again.

22 COMMITTEE MEMBER PACHECO: Another dumb question.
23 I think I -- I think I might know the answer, but I want
24 to make -- confirm. Is this -- is AREIS an internal -- an
25 internal application --

1 CRAIG CHRISTIE: Yes.

2 COMMITTEE MEMBER PACHECO: -- and if someone
3 could just let me know about that.

4 CRAIG CHRISTIE: Yes. It's developed internally.

5 COMMITTEE MEMBER PACHECO: That's the problem.
6 So, yeah, I think -- as we move more and I think I brought
7 this up during the Finance and Administration, during the
8 modernization update, you know, it's very important for
9 us, as we move forward, that we employ, you know,
10 enterprise applications out-of-the-box solutions, so that
11 we don't have these kinds of problems, because these
12 are -- these are problems that would come up, either
13 institutional knowledge problems or issues that are our,
14 but having a very robust out-of-the-box solution from an
15 enterprise application and avoiding as much as possible
16 internal development, internal applications would be an
17 appropriate thing. And it would also make sure that we
18 would have a clean bill on this particular area with the
19 management letter. So, my opinion. Thank you.

20 That's all my questions

21 CHAIR COHEN: All right. Thank you.

22 Ramón Rubalcava, did you want to say something?

23 COMMITTEE MEMBER RUBALCAVA: No.

24 CHAIR COHEN: No.

25 Just commenting that -- no. No.

1 CHAIR COHEN: Okay. All right. So I want to
2 talk a little bit about -- so you raise a little issue
3 with AREIS. And you found -- you found, I don't know, a
4 glitch. I don't how to describe it. You found something
5 that was inconsistent. You found a risk. That leads me
6 to where our internal controls are. This -- I don't know
7 how long it's been around. This is my -- certainly my
8 first time chairing this body, so I don't have
9 institutional knowledge on this. I think you guys have
10 been around a little bit longer than I have on dealing
11 with this issue. But should this -- shouldn't our
12 internal controls have caught this access? What happened
13 there?

14 BILLY KIM: Yes, exactly. So that's the reason
15 why we're calling it out, is that there should have been
16 some way of catching this, right? And --

17 CHAIR COHEN: So one more question. Was this
18 long-standing or is this something that was new? Are you
19 able to put a timeline to this exposure?

20 BILLY KIM: Yeah. No, the root matter of it, I
21 believe is a situation where you have an employee that
22 changed departments, right --

23 CHAIR COHEN: Okay.

24 BILLY KIM: -- and their access was not removed.
25 And basically then, they got additional access and it

1 caused a segregation of duties issue.

2 CHAIR COHEN: Um-hmm.

3 BILLY KIM: And so without a monitoring control,
4 it didn't identi -- so you didn't have this detective
5 control, right?

6 CHAIR COHEN: Um-hmm.

7 BILLY KIM: And so therefore, it -- you know, it
8 went unnoticed --

9 CHAIR COHEN: Um-hmm.

10 BILL KIM: -- until we actually was -- we're
11 going through the review. The good thing is --

12 CHAIR COHEN: Now, are you able to tell me how
13 long it went unnoticed?

14 BILLY KIM: Craig, do you have the details on
15 that?

16 CRAIG CHRISTIE: We don't know exactly how long
17 that occurred. I think in that perspective it was
18 definitely new and not there when we were doing our review
19 last year.

20 CHAIR COHEN: Okay.

21 CRAIG CHRISTIE: Additionally, I think
22 management, in this situation, is relying upon a system
23 within a system, which requires secondary approver. So
24 you -- the setting basically prevents you from approving
25 your own developed code --

1 CHAIR COHEN: Um-hmm.

2 CRAIG CHRISTIE: -- which is a good configuration
3 to have in place and important. Our issue was we couldn't
4 validate that that setting was in place the full period.

5 CHAIR COHEN: Okay. I understand. Thank you.

6 And I know the executive director is on top of
7 it.

8 CHIEF EXECUTIVE OFFICER FROST: Yes.

9 CHAIR COHEN: All right.

10 CHIEF EXECUTIVE OFFICER FROST: And I can add
11 some context if you want. So Craig is correct, so you did
12 get an update on our data and technology project in the
13 Finance and Administration Committee. This system is
14 internally developed. It is at end of life. It will be
15 replaced by a system that will lift the governance. And
16 this is really a governance issue, as I would describe it.

17 CHAIR COHEN: Okay. Thank you.

18 CHIEF EXECUTIVE OFFICER FROST: Um-hmm.

19 CHAIR COHEN: All right. Thank you. Does that
20 conclude your presentation? I think so.

21 BILLY KIM: Yes.

22 CHAIR COHEN: Okay. Colleagues, is there any
23 further discussion, any other questions that you want to
24 ask?

25 All right, let's keep moving forward. Thank you

1 very much. This is an action item. Is there an action or
2 a motion for this action?

3 COMMITTEE MEMBER PACHECO: I'll move.

4 CHAIR COHEN: All right. Jose Luis Pacheco has
5 made a motion to accept the staff recommendation.

6 VICE CHAIR MILLER: Second.

7 CHAIR COHEN: And a second by Mr. Miller.

8 Can we take that without objection?

9 And we take that without objection. Thank you
10 very much.

11 Thank you.

12 All right. Let's keep moving forward. Oh, we're
13 now going to recess into closed session.

14 VICE CHAIR MILLER: Summary of Committee
15 Direction

16 CHAIR COHEN: Oh, okay. We're going to do the
17 summary. Let's take some public comment, if you --

18 BOARD CLERK ANDERSON: (Shake head).

19 CHAIR COHEN: All right. Thank you. Let the
20 record reflect that there is no public comment at this
21 time.

22 Okay. All right. We're going to transition to
23 closed session.

24 All right. We're going to recess now into closed
25 session for Items 1 through 3 from the closed session

1 agenda. We will immediately reconvene in open session
2 after the closed session. Thank you.

3 (Off record: 1:47 p.m.)

4 (Thereupon the meeting recessed
5 into closed session.)

6 (Thereupon the meeting reconvened
7 open session.)

8 (On record: 1:57 p.m.)

9 CHAIR COHEN: All right. Good afternoon, ladies
10 and gentlemen. We are back in open session. And this
11 adjourns the meeting. Thank you very much for everyone's
12 service. Mr. Pacheco, it's been a pleasure.

13 Thank you.

14 (Thereupon the California Public Employees'
15 Retirement System, Board of Administration,
16 Risk & Audit Committee open session
17 meeting adjourned at 1:57 p.m.)
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CERTIFICATE OF REPORTER

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 26th day of November, 2025.



JAMES F. PETERS, CSR
Certified Shorthand Reporter
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