



# California Public Employees' Retirement System 2026 Audit Plan Required Communications Year Ended June 30, 2026



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# Agenda

- Plante Moran team leaders
- Pre-audit communication
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  - Timing of testing
  - Auditor responsibilities
  - Internal control and materiality
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  - Response to significant risks
  - Other areas of focus
- Accounting standard changes
- Questions



# Plante Moran team leaders



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“ATTITUDE  
is contagious”

# Pre-Audit Communications



# Audits to perform

## Plante Moran will perform an audit and express an opinion on the following:

- ✔ Audit of the financial statements for the year ended June 30, 2026, in accordance with Government Auditing Standards
  - Independent Auditor's Report on the basic financial statements
- ✔ Audit of the GASB 68 and GASB 75 schedules
- ✔ Attestation report on census data for the CalPERS Agent Multiple-Employer Defined Benefit Pension Plan

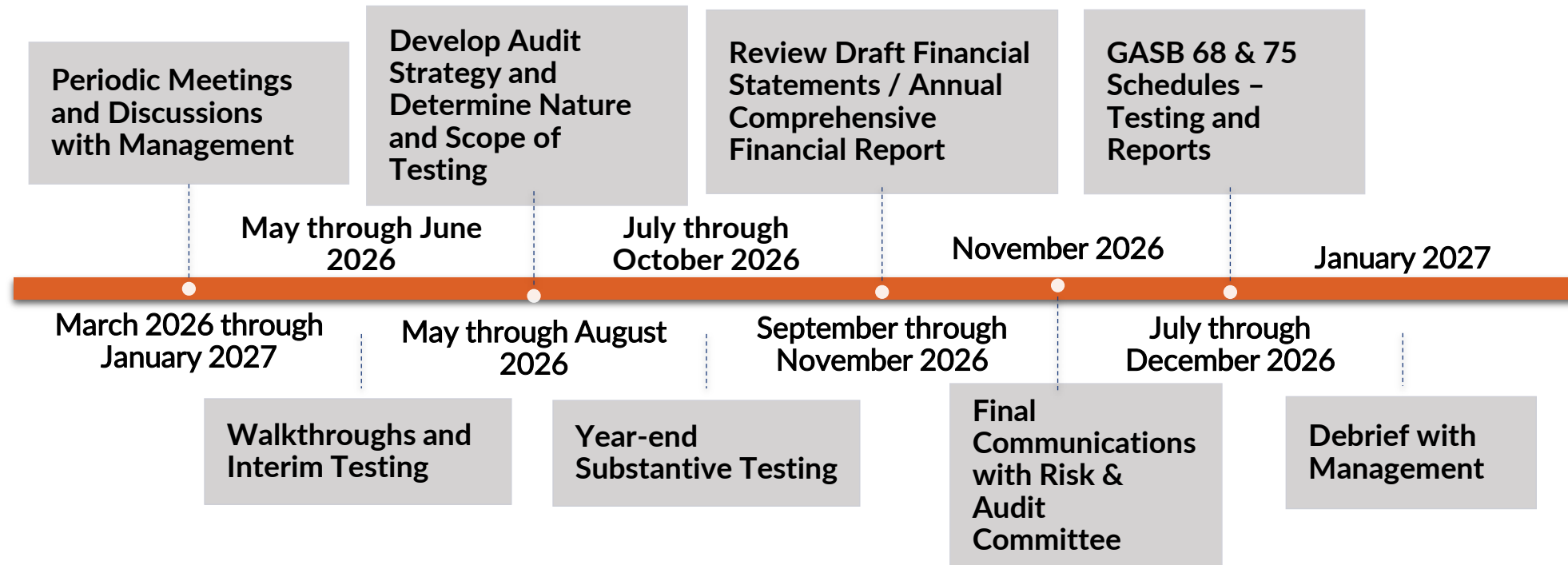
## Other deliverables:

- ✔ Report on Internal Control over Financial Reporting and Compliance under Government Auditing Standards
- ✔ Required communications to the Risk and Audit Committee
- ✔ Management letter



# Timing of testing

Audit fieldwork will include several phases:





# Auditor responsibilities

## Auditor responsibilities:

- ✓ To gain a basic understanding of the internal controls (including those over financial reporting), policies and procedures in order to design an effective and efficient audit approach, not for the purpose of providing assurance on the internal control structure.
- ✓ To express an opinion about whether the financial statements prepared by management with your oversight are fairly presented in accordance with U.S. Generally accepted accounting principles (GAAP).
- ✓ In accordance with Generally Accepted Government Auditing Standards (GAO Standards), we are required to design audit procedures to detect instances of noncompliance with provisions of laws, regulations, or contracts that may have a material effect on the financial statements.
- ✓ We will communicate deficiencies in internal control that are determined to be a significant deficiency or material weakness, as well as instances of noncompliance that materially impact the financial statements.



# Auditor responsibilities (continued)

## Auditor responsibilities:

- ✓ To report to you amounts in the financial statements that are subject to management's judgment, as well as items that by their nature, are significant accounting estimates.
- ✓ To conduct the audit in a manner that does not relieve management or those charged with governance of their responsibilities.
- ✓ To maintain independence in accordance with professional standards and applicable regulatory requirements.



# Internal control and materiality

## Approach to internal control:

- Narratives/questionnaires
- Observation and inspection of procedures; walkthroughs on controls and development of unpredictable procedures
- Effectiveness of CalPERS' internal controls for financial reporting, investment valuation, for example
- No opinion on the effectiveness of internal controls

## Materiality:

- The concept of materiality is inherent in our work.
- We place greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than on those items of lesser importance, or those in which the possibility of material error is remote.



## Identification of significant risks

To plan effective audits, we must identify significant risks of misstatement in the financial statements and design procedures to address those risks.

Identified risks include:

- Management override of Internal Controls Over Financial Reporting
- Valuation of investments, particularly those that are not publicly traded
- Improper revenue recognition related to premiums and investment gain/loss
- Total pension and OPEB liabilities, including related inputs/assumptions
- Valuation of estimated future policy liability related to LTC Fund

**As planning progresses and additional inquiries are made, additional significant risk areas may arise and will be communicated.**



# Response to significant risks

## To address significant risk of material misstatement we plan to:

- **Management override of Internal Controls Over Financial Reporting**
  - Testing of a risk-based sample of journal entries recorded in the general ledger and other adjustments made in preparation of the financial statements
  - Perform fraud inquiries across the organization
- **Valuation of investments**, particularly the investments that do not have observable inputs, including related unrealized gain/loss recognized
  - Understanding of CalPERS controls over valuation/control testing
  - Risk-based substantive testing:
    - Lag analysis, expert involvement, use of audited financial statement/capital statement
  - Improper revenue recognition - testing of gains and losses
- **Improper revenue recognition related to premiums**
  - Perform detailed testing of premiums and federal government subsidies, including obtaining supporting documentation, vouching to cash receipts, and recomputing unearned premiums (HCF)



# Response to significant risks (continued)

## To address significant risk of material misstatement we plan to:

- **Total Pension and OPEB liabilities and related inputs/assumptions:**
  - Perform testing on key census data attributes, including attestation examination, testing of data at employers, and other procedures.
  - Perform analytical tests on census data, including substantive testing of data outside expectations.
  - Review and test the actuarial valuations, including testing key assumptions and testing the actuarially computed changes to the total pension and OPEB liabilities.
- **Valuation of estimated future policy liability related to LTC Fund:**
  - Perform procedures to ensure the accuracy of data used by the actuaries to ensure completeness and accuracy of inputs, methodologies, and assumptions used to develop the estimate for claims liabilities.
  - Obtain the actuarial valuation reports for the estimated future policy liability and review, with the assistance of Plante Moran actuarial specialists, management's valuation model and related assumptions, including the discount rate.



## Other areas of focus

Additional areas where will concentrate our time due to the materiality, complexity, or judgment involved in the accounting.

- ✓ Plan contributions
- ✓ Plan benefit payments, including annuity, claims, and premiums
- ✓ Healthcare estimated insurance claims payable, including IBNR
- ✓ Administrative fee revenues/expenses



# Accounting standard changes



# Accounting standard changes

GASB Pronouncement	FYE 2026	FYE 2027	Potential Impact for CALPERS
GASB 103, <i>Financial Reporting Model Improvements</i>	X		Minor
GASB 104, <i>Disclosure of Certain Capital Assets</i>	X		Minor



# Accounting standard changes

## **GASB Statement No. 103, *Financial Reporting Model Improvement***

- **What is the scope and potential impact?**
  - Establishes new accounting and financial reporting requirements – or modifies existing requirements – related to the following applicable to CalPERS:
    - Management’s discussion and analysis (MD&A)
    - Presentation of Proprietary Fund Statements –
      - Classification changes between operating/nonoperating, along with adding the concept of subsidies
    - Unusual or infrequent items
- **When is this effective?**
  - CalPERS Fiscal Year Ending June 30, 2026



# Accounting standard changes (continued)

## *GASB Statement No. 104, Disclosure of Certain Capital Assets*

- **What is the scope and potential impact?**
  - Requires certain types of capital assets, such as lease assets, intangible right-to-use assets, subscription assets, and other intangible assets to be disclosed separately by major class of underlying asset in the capital assets note. The Statement also requires additional disclosures for capital assets held for sale.
- **When is this effective?**
  - CalPERS Fiscal Year Ending June 30, 2026



# Accounting standard changes - upcoming

## **GASB Statement No. 105, *Subsequent Events***

- **What is the scope and potential impact?**
  - Describes the date the financial statements are available to be issued, which is the date that (1) the financial statements are complete and in compliance with GAAP and (2) approvals necessary for issuance have been obtained. Disclosure of this date is required, regardless of whether there is a recognized or non-recognized subsequent event.
  - Provides explicit guidance regarding subsequent events that require disclosure.
  - Management is working on the evaluation of the impact of this new standard.
- **When is this effective?**
  - CalPERS Fiscal Year Ending June 30, 2027



# Questions?

We greatly appreciate the opportunity to serve the California Public Employees' Retirement System.



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