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California Public Employees' Retirement System

Report to the Risk and Audit Committee

Fiscal year ended June 30, 2026

November 17, 2026

Introductions



Jean Young, CPA

Engagement Partner



Amanda Cronk, CPA

Engagement Principal

Agenda

01 Audit status, timeline and deliverables

02 Audit responsibilities and opinion

03 Significant risks and our audit response

04 Internal control and audit adjustments

05 Required communications dashboard

06 Questions

Overview and status of our audit

We expect to issue an unmodified opinion on November 17, 2026, together with our report on internal control over financial reporting and on compliance and other matters under *Government Auditing Standards*.

We have substantially completed our audit of the financial statements of the fiduciary and proprietary activities of CalPERS, a component unit of the State of California, as of and for the year ended June 30, 2026.

Our audit was performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*.

Our objective is to obtain reasonable – not absolute – assurance that the financial statements are free from material misstatement.

The scope of our work was consistent with the audit plan previously communicated to the Committee.

New accounting pronouncements adopted – GASB 103, 104, and 105

Finalize subsequent event testing, including final inquiries; to date, no matters have been identified that we expect to affect our opinion.

Management cooperated throughout the audit, and all records and information we requested were made available.

Audit timeline and deliverables

Audit timeline:

March - May 2026
Planning procedures and risk assessment

May/June 2026
Interim procedures, including internal control walkthroughs and testing

July – November 2026
Employer census data and GASB 68 schedule audits (finalization in progress)

August – October 2026
Year-end audit procedures, including review of the financial statements

November 17, 2026
Presentation of audit results to the Risk and Audit Committee

November 17, 2026
Expected issuance of audit opinion, Government Auditing Standards report

December 2026
GASB 68/75 schedules and independent accountant's reports delivered

Deliverables:

- Opinion on CalPERS' ACFR as of and for the year ended June 30, 2026
- Report on internal control over financial reporting and on compliance and other matters (Government Auditing Standards)
- Required communications with those charged with governance (this presentation) along with management letter
- Opinions on GASB 68/75 schedules in December

Responsibilities and opinion

Our responsibility under auditing standards

- Express an opinion on whether the financial statements are fairly presented, in all material respects, in conformity with U.S. GAAP
- Plan and perform the audit to obtain reasonable, not absolute, assurance that the financial statements are free of material misstatement, whether due to fraud or error
- Obtain an understanding of internal control relevant to the audit and determine the nature, timing, and extent of procedures based on our risk assessment
- Report on internal control over financial reporting and on compliance and other matters under Government Auditing Standards
- Communicate significant matters relevant to the Committee's oversight of the financial reporting process
- Evaluate whether there is substantial doubt about the System's ability to continue as a going concern

Management's responsibilities

- Preparation and fair presentation of the financial statements
- Selection and consistent application of appropriate accounting policies
- Designing, implementing, and maintaining effective internal control
- Evaluating the System's ability to continue as a going concern

Opinion

- We expect to issue an unmodified ("clean") opinion for the year ended June 30, 2026
- An unmodified opinion provides reasonable assurance that the financial statements are free from material misstatement

Significant risks identified

Significant risks are risks of material misstatement that require special audit consideration. Our procedures and results for each are detailed on the following slides. These are assessed audit risks, not findings; no elevated matters have been identified to date.

Fraud and significant estimate risks:

1. Valuation of hard-to-value (Level 3/NAV) investments, including potential valuation bias
2. Investment revenue recognition and recording of investment sales
3. Total pension liability, including accuracy and completeness of underlying census data
4. Long-Term Care Fund liability for future policy benefits
5. Health Care Fund estimated insurance claims due (IBNR)
6. Premium revenue recognition – proprietary funds
7. Management override of controls (presumed risk)

Other inherent risks:

8. Allocation of the Public Employees' Retirement Fund among PERF A, B, and C
9. Entity-level understanding related to financial reporting

Significant risks – Investments

Significant risk	Our audit response	Results
Valuation of hard-to-value investments (Level 3/NAV)	• Tested controls over valuation, including management's true-up of balances to final 6/30/2026 capital statements • Substantively tested a sample of hard-to-value investments to audited financial statements and capital statements • Evaluated the population valued on 3/31 roll-forward statements • Plante Moran fair value specialists consulted	No issues noted
Potential valuation bias	• Performed trend analysis over the entire population of hard-to-value investments • Performed additional valuation testing on investments with significant increases in value at June 30, 2026	No indicators of management bias identified
Investment revenue recognition and investment sales	• Tested controls and a sample of recorded unrealized gains and losses • Reconciled investment income to third-party investment statements • Tested the journal entry for an investment sale and vouched receipt of proceeds	No issues noted

Significant risks – Pension and Long-Term Care liabilities

Significant risk	Our audit response	Results
Total pension liability, including census data	• Tested completeness and accuracy of census data, including employer payroll census audits • Plante Moran actuaries evaluated the actuarial valuation and significant assumptions • Tested the long-term expected rate of return • Agreed participant counts from census data to the actuarial valuation and financial statements	No issues noted
Long-Term Care Fund liability for future policy benefits	• Evaluated management's methods, assumptions, and judgments with Plante Moran actuaries • Confirmed valuation methodology and key assumptions directly with the actuary • Tested key data inputs to policy administration records and claim detail	No issues noted

Significant risks – Health Care Fund

Significant risk	Our audit response	Results
Estimated insurance claims due (IBNR)	• Evaluated the reasonableness of management's methods, assumptions, and judgments • Confirmed reserve methodology and assumptions directly with the actuary • Tested a sample of claims and traced them into the lag tables underlying the reserve • Performed a retrospective review of the prior-year reserve	No issues noted
Premium revenue recognition (proprietary funds)	• Validated the myCalPERS premium population and tested individual premium transactions • Tested management's year-end reconciliation of myCalPERS premiums to the trial balance, including reconciling items and accruals • Traced amounts due to carriers and unearned premiums to carrier support and subsequent payments • Considered this risk in journal entry testing	Passed adjustments proposed

Significant risks – Financial Reporting

Significant risk	Our audit response	Results
Management override of controls (presumed fraud risk)	• Tested the completeness of general ledger and trial balance data • Applied risk-based criteria to select and test journal entries • Conducted fraud inquiries and incorporated elements of unpredictability • Evaluated significant estimates for potential bias	No issues noted
PERF A/B/C allocation	• Evaluated the allocation methodology for all accounts and performed detailed testing • Agreed total PERF balances to PeopleSoft and myCalPERS source data • Assessed whether allocations reflect the asset allocation among the PERFs	No issues noted
Entity-level understanding of financial reporting	• Evaluated entity-level controls • Evaluated internal audit reports • Information technology general controls – used IT specialists • Designed procedures for each cycle to test controls individually • Reviewed cross-cutting processes (financial close, PERF allocation) for an organization-wide understanding	No issues noted

Internal control and audit adjustments

Material weaknesses and significant deficiencies

- None identified to date in internal control over financial reporting
- We do not express an opinion on the effectiveness of internal control

Other control observations

- Observations and recommendations will be communicated to management in a separate management letter

Corrected misstatements

- None identified to date

Uncorrected misstatements

- Two passed adjustments noted:
  - $180 million of revenue recorded in current year in Health Care Fund
  - $27 million of additional revenue related to rebates received above initial estimate

Disagreements or difficulties with management

- None

Other matters

- No significant issues discussed with management prior to retention or during the audit
- Management representation letter to be dated November 17, 2026
- No consultations with other accountants

Required communications dashboard

Professional standards require we communicate the following matters to those charged with governance.

Topic	Status
Independence	Discussed today
Audit strategy, timing, and significant risks	Discussed today
Significant changes to audit strategy or significant risks	None
Significant accounting policies, practices, and estimates	Discussed today
Quality of financial reporting	Discussed today
New accounting pronouncements	Discussed today
Significant unusual transactions	None
Related parties	No matters noted
Use of specialists (PM actuarial, IT and fair value) and use of Internal Audit	Discussed today
Other information in the ACFR	Discussed today

Topic	Status
Internal control matters	See management letter
Corrected and uncorrected misstatements	Discussed today
Disagreements with management	None
Significant difficulties encountered	None
Consultations with other accountants	None
Difficult or contentious matters consulted outside the engagement team	None
Going concern	No substantial doubt identified
Noncompliance with laws and regulations	None
Subsequent events	To be evaluated through report date
Management representations	Letter dated November 17, 2026

Questions?

Thank you!

For more information contact:

Jean Young, CPA (Partner)

517-336-7458

Jean.Young@plantemoran.com

Amanda Cronk, CPA (Principal)

810-766-6045

Amanda.Cronk@plantemoran.com