

REPORT TO THE RISK AND AUDIT COMMITTEE



AUDIT PLANNING: YEAR ENDING JUNE 30, 2024



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FULL REPORT

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The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Directors and Audit Committee) and, if appropriate, management of the Company, and is not intended and should not be used by anyone other than these specified parties.

Welcome

May 7, 2024

The Risk & Audit Committee

California Public Employees' Retirement System

Professional standards require us to communicate with you regarding matters related to the audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. This document provides an overview of our plan for the audit of the financial statements of California Public Employees' Retirement System (the "System") as of and for the year ending June 30, 2024, including a summary of the nature, scope, and timing of the planned audit work.

We are pleased to be of service to the System and look forward to discussing our audit plan, as well as other matters that may be of interest to you, during our meeting on June 11, 2024.

Respectfully,

BDO USA, P.C.

BDO USA, P.C., a Virginia professional corporation, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms.



Scope of Services, Responsibilities, and Independence

Scope of Services

SCOPE OF SERVICES

- ▶ Audit of the basic financial statements of the fiduciary and proprietary activities of the California Public Employees' Retirement System as of and for the year ending June 30, 2024.
- ▶ Audits of specified elements within the CalPERS GASB 68 pension and GASB 75 other post-employment benefit schedules.
- ▶ Attestation over the assertions for census data related to the CalPERS Agent Multiple-Employer Defined Benefit Pension Plan.

DELIVERABLES

- ▶ Independent Auditor's Report on the basic financial statements
- ▶ Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
- ▶ Reports over the GASB 68 and 75 Schedules ("Schedules")
- ▶ Attestation report over census data related to the CalPERS Agent Multiple-Employer Defined Benefit Pension Plan
- ▶ Required Communications to the Risk & Audit Committee
- ▶ Management comments letter

Responsibilities

MANAGEMENT'S RESPONSIBILITIES

- ▶ For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
- ▶ For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.
- ▶ To provide us with:
 - Access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - Written representations at the conclusion of the engagement.
 - Full cooperation of and unrestricted access to personnel at participating employers as we deem necessary.

RESPONSIBILITIES OF THE RISK AND AUDIT COMMITTEE

- ▶ Oversight of the financial reporting process and internal controls over financial reporting.
- ▶ Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud.

RESPONSIBILITIES OF MANAGEMENT AND THE RISK AND AUDIT COMMITTEE

- ▶ Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards.
- ▶ Ensuring that the System's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the System's financial statements.



Responsibilities

RESPONSIBILITIES OF BDO

- ▶ BDO USA, P.C., as your auditor, is responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America.
- ▶ In addition, our audits will be conducted in accordance with standards for financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States
- ▶ The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities.
- ▶ Performing an audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance.
- ▶ The engagement letter, a copy of which has been provided to you, includes specific details regarding the auditor's and management's responsibilities.



Independence

Our engagement letter to you dated February 21, 2024 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the System with respect to independence as agreed to by the System. Please refer to that letter for further information.



Audit Timeline

Overall Audit Timeline

The following represents our anticipated schedule with regard to our audits of the financial statements of the System and the Schedules:

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Periodic Meeting and Discussions with Management	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Walkthrough and Interim Testing		✓	✓							
Develop Audit Strategy, and Determine Nature and Scope of Testing		✓	✓	✓	✓					
Substantive Testing (confirmation procedures, etc.)			✓	✓	✓	✓	✓			
Review Draft Financial Statements / Annual Comprehensive Financial Report						✓	✓	✓		
Final Communications with Risk & Audit Committee								✓		
GASB 68 & 75 Schedules - Incremental Testing and Report					✓	✓	✓	✓	✓	
Debrief with Management										✓



Audit Strategy

Audit Strategy

Overall, our audit strategy is to assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design further audit procedures responsive to assessed risks. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In connection with our audit, we will obtain a sufficient understanding of the System's internal control to plan the audit of the financial statements and Schedules. However, such understanding is required for the purposes of determining our audit procedures and not to provide any assurance concerning such internal control.

In addition, *Government Auditing Standards* also require that we consider compliance with certain provisions of laws, regulations, contracts and grant agreements noncompliance with which could have a direct and material effect on the financial statements and Schedules. However, providing an opinion on compliance with those provisions is not an objective of our audits.

We will continue to update the resulting assessment throughout the audits.

Audit Strategy Considerations

We focus on areas with higher risk of material misstatement (whether due to error or fraud) and other areas of concern for management and the Risk and Audit Committee. Our audit strategy includes consideration of:

- ▶ prior year audit results together with current year preliminary analytical review, including discussions with management and those charged with governance regarding the Systems' operations, business activities, and risks,
- ▶ inherent risk within the System (i.e., the susceptibility of the financial statements to material misstatement, before consideration of any related controls),
- ▶ recent developments within the industry, regulatory environment and general economic conditions,
- ▶ recently issued and effective accounting and financial reporting guidance,
- ▶ the Systems' significant accounting policies and procedures, including those requiring significant management judgments and estimates and those related to significant unusual transactions,
- ▶ the control environment, risk management, and monitoring processes, and the possibility that the control system and procedures may fail to prevent or detect a material error or fraud,
- ▶ information about systems and the computer environment in which the related systems operate, and
- ▶ a continual assessment of materiality thresholds based upon qualitative and quantitative factors affecting the System.
- ▶ Results of the work of the System's internal audit function and discussion with those personnel.
- ▶ the extent to which we plan to use others, outside the core engagement team, to perform certain planned audit procedures or evaluate audit results related to significant risks that may require specialized skills or knowledge

We will communicate to you any significant changes to the planned audit strategy, or to the significant risks initially identified, that may occur during the audit due to the results of audit procedures or in response to external factors, such as changes in the economic environment.

Updates to the Audit Strategy:

- ▶ Audit planning is a collaborative and continuous process and our audit strategy, as reflected, will be reviewed and updated as our audit progresses.
- ▶ We will communicate to the Risk and Audit Committee, in a timely manner, any significant changes to the planned audit strategy or the significant risks initially identified that may occur during the audit to the results of audit procedures or in response to external factors, such as changes in the economic environment.
- ▶ Changes to the audit risks identified, their classification, or the planned audit approach from prior year have been highlighted within the following Audit Areas of Focus.

The BDO ADVANTAGE

At BDO, we are continuously evaluating and improving our methodologies, technologies, and applications to evolve our approach to the audit process.

Our approach to audit technology enriches the experience for our clients, provides better risk assessment and deeper understanding of your business, and contributes to high-quality audits for capital markets.



AUDIT QUALITY



WORKING ON WHAT MATTERS

- ▶ Our automations enable our people to focus on more strategic work. The use of cutting-edge data analytics in our risk-based audit approach enables our auditors to target risks and testing to the critical areas of the audit.

FOCUSED INSIGHT



CLARITY AND COLLABORATION

- ▶ Our project management tools, and global portal, help prevent surprises and provide a snapshot of audit progress.
- ▶ Our teams have access to dedicated user enablement support to provide a smooth client experience.

SEAMLESS AUDIT



PEOPLE AND PROCESS OPTIMIZATION

- ▶ Our engagement level automations, continuous process evaluation, and ongoing improvements help us optimize the workflow and process of the audit. This drives consistency in the execution of the audit.

GREATER PRECISION

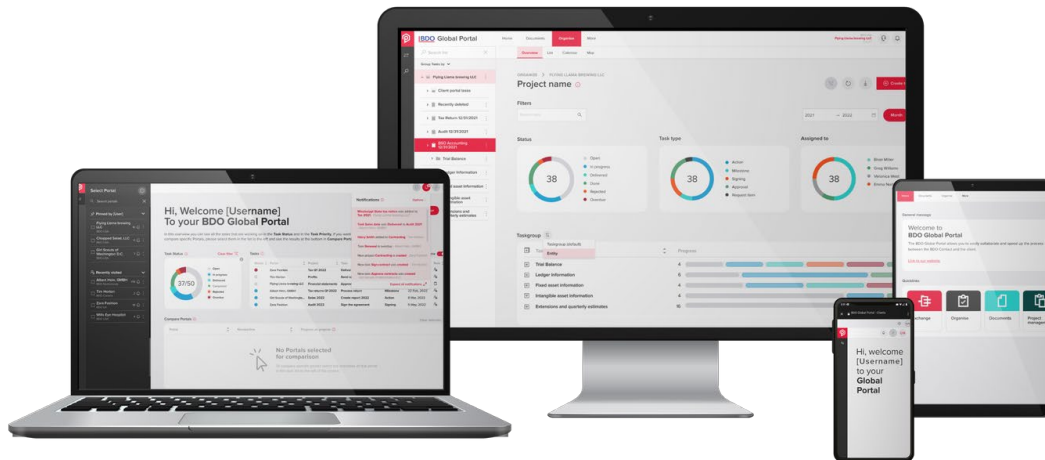
The BDO ADVANTAGE

The **BDO ADVANTAGE**, our digital suite of tools, equips our auditors to perform more effective and robust audits. These tools include communications and project management tools to ensure there are no surprises; automations to help our teams focus on risks; and data analytics that allow our auditors to dive deeper into their risk analysis through use of data visualization, correlation, and comparison. The **BDO ADVANTAGE** empowers our audit teams to create more industry-focused client insights with greater precision.

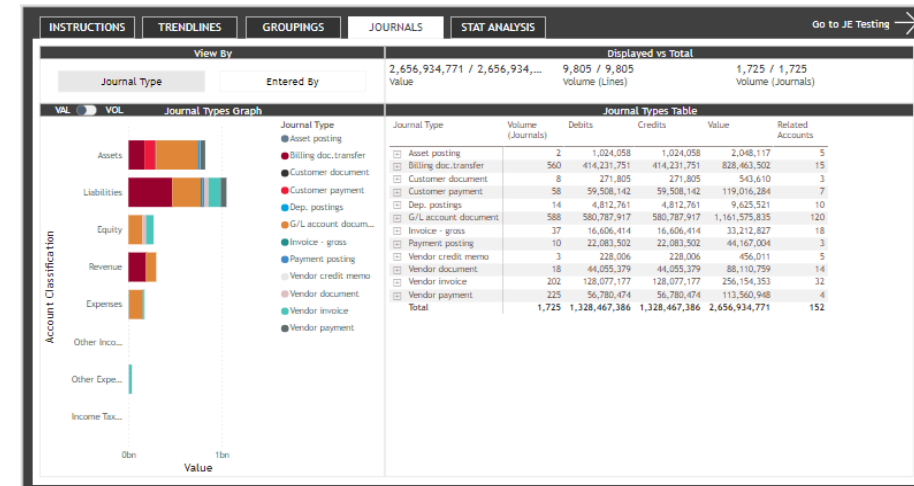
Below are two examples of the **BDO ADVANTAGE** technology suite



- ▶ Provides you with access to all relevant requests and the data and documents.
- ▶ Houses contact details of your BDO engagement team, timelines, schedules, and communication records.
- ▶ Visually depicts the status and progression of the audit in one screen.



- ▶ Assists with exploring large volumes of transactions within the entity's general ledger for purposes of discovering or analyzing patterns or trends, developing expectations, and identifying areas for further testing.
- ▶ Used to effectively and efficiently perform testing of the entity's journal entries.





Audit Areas of Focus

Audit Areas of Focus

Based upon our initial assessment, our audit will entail a combination of review of controls, and substantive testing. The primary areas of focus in our overall audit strategy and select example procedures, including the following:

Audit Areas of Focus	Discussion
Fraud Risk, including Management Override of Internal Control Over Financial Reporting	Review of internal control procedures, inquiry of System personnel including those outside accounting, review of tip-line activity, testing of journal entries by utilizing data analytics to identify risk-based journal entries for testing, and perform risk-based testing of certain accounts.
Investments and Related Income and Disclosures	Confirmation of holdings with custodians and investment managers, obtaining audited statements and retrospective review compared to interim financial reports, performing testing over valuation of investments through rollforward testing procedures on lag reporting period and testing valuation models (including private equity and real asset investments that are not co-terminus to CalPERS year-end and are based on lagged reporting), testing a sample of investment proceeds, and assessing adequacy of disclosures.
Long Term Care Liability for Future Policy Benefits	Review of actuarial valuation report including the discount rate using in-house actuarial professionals, testing rollforward activity for the year, and testing samples of underlying census data for completeness and accuracy that support the valuations.
Health Care Estimated Insurance Claims Due	Testing a sample of claims for accuracy, retrospective review of the prior year incurred but not reported (IBNR) reserve, review of current year IBNR reserve reports using in-house actuarial professionals, and recalculation of the liability amounts.
Pension and Other Postemployment Benefit Liabilities and Related Disclosures	Testing samples of underlying census data for completeness and accuracy, using in-house actuarial professionals to evaluate reasonableness of assumptions based on published data and most recent experience study, performing certain recalculations including modeling long term rate of return and sufficiency of net position calculations.
Plan Contributions	Testing a sample of recorded contributions for a given period based on recalculations of required contribution rates and perform substantive data analytics over contributions including investigating any unexpected changes.
Plan Benefit Payments	Testing a sample of benefit payments for consistency with plan provisions and using substantive data analytics to identify benefit payment trend anomalies for investigation.
Premium And Administrative Fee Revenues	Testing a sample of premium and administrative fee revenues as well as performing substantive analytical analyses for existence, completeness and accuracy.
Information Systems	Identifying all systems relevant to the financial reporting process, reviewing the IT general computer controls including logical access, change management, and cybersecurity controls, and reviewing user control considerations for interacting with key service providers' information systems.



Industry Resources

Industry Risk and Resources

- ▶ BDO's industry focus is part of who we are and how we serve our clients and has been for over a century. We demonstrate our experience through knowledgeable professionals, relevant client work and participation in the industries we serve.
- ▶ Our industry practices bring perspective on trends, opportunities, issues and regulations that frame our services and approach to address your needs and your industry.


The screenshot shows the BDO website's Public Sector Overview page. The browser address bar displays the URL <https://www.bdo.com/industries/public-sector/overview>. The navigation menu includes links for Locations, Our People, Events, News, Careers, Blogs, Contact, and Login. The main navigation bar features the BDO logo, the text "UNITED STATES", and menu items for SERVICES, INDUSTRIES, ISSUES & RESOURCES, INSIGHTS, and ABOUT. A search bar and a hamburger menu icon are also present. The breadcrumb trail reads "Home > Industries > Public Sector > Overview". The main content area features a large image of business professionals in a meeting, with the heading "Public Sector" and the text: "BDO leverages an independent viewpoint to help clients navigate complex, government-wide challenges." Below this, there are two tabs: "OVERVIEW" (selected) and "FEDERAL GOVERNMENT". The "OVERVIEW" tab contains the following content:

Challenging times call for a new perspective.

The public sector is facing many challenges. In addition to political gridlock, the federal deficit has caused many agencies' budgets to shrink over the last several years, meaning that government leaders are under pressure to accomplish more with reduced funding.

BDO's Public Sector Practice serves a wide variety of clients across many levels of government. In addition to our Federal Government clients, we also serve Regional, State, and Local Governments, drawing on deep experience to provide strategic, innovative solutions. Offering a unique depth of capabilities and resources, BDO helps government leaders develop tailored strategies and implement practical solutions that make the most of their limited resources.

KEY CONTACTS



MARK ELLENBOGEN ▶
President/CEO of BDO Public Sector

BDO ESG Center of Excellence

Today, every business has a responsibility - and an opportunity - to address the significant environmental, social and governance (ESG) challenges we face as an interconnected, global society.

Not only is it the right thing to do, it is the only thing to do to contribute to a better planet, a better society and a better - and more sustainable - business. At BDO, ESG is a top firm priority and a key component of our strategic vision for the future. We invite you to learn more about BDO's approach to ESG and visit our [BDO ESG Center of Excellence](#).


WITH YOU AT EVERY STAGE OF YOUR JOURNEY:

- ▶ ESG Strategy & Program Development
- ▶ ESG Reporting & Attestation
- ▶ Tax Transparency & ESG Tax Strategy
- ▶ Human Capital Management Strategy
- ▶ Supply Chain Sustainability & Resilience
- ▶ Climate Risk
- ▶ Sustainable Finance & Investing
- ▶ Community Resilience
- ▶ ESG Value Creation & Innovation

Visit our [BDO CoE](#) for evolving ESG related insights and learning opportunities:

- ▶ Publications
- ▶ Alerts
- ▶ Practice Aids
- ▶ Podcasts
- ▶ Webinars





At BDO, our purpose is helping people thrive, every day. Together, we are focused on delivering exceptional and sustainable outcomes – for our people, our clients and our communities. Across the U.S., and in over 160 countries through our global organization, BDO professionals provide assurance, tax and advisory services for a diverse range of clients.

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Material discussed in this publication is meant to provide general information and should not be acted on without professional advice tailored to your needs.

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