

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 14, 2023
11:31 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

APPEARANCES

COMMITTEE MEMBERS:

David Miller, Chairperson

Lisa Middleton, Vice Chairperson

Fiona Ma, represented by Frank Ruffino

Jose Luis Pacheco

Ramon Rubalcava

Mullissa Willette

STAFF:

Marcie Frost, Chief Executive Officer

Matt Jacobs, General Counsel

Kevin Fein, Chief Compliance Officer

Michele Nix, Acting Chief Financial Officer

Belize Chappuie, Chief Auditor

ALSO PRESENT:

Bill Kim, BDO

Sylvia Mak, BDO

Dipika Nagin, BDO

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PROCEEDINGS

1
2 CHAIRPERSON MILLER: Okay. I'm going to call the
3 Risk and Audit Committee meeting to order. I have a
4 11:31.

5 And the first order of business is the slow roll
6 call.

7 (Laughter).

8 BOARD CLERK TRAN: David Miller?

9 CHAIRPERSON MILLER: I am here.

10 BOARD CLERK TRAN: Lisa Middleton?

11 VICE CHAIRPERSON MIDDLETON: Present.

12 BOARD CLERK TRAN: Regina Evans?

13 Frank Ruffino?

14 ACTING COMMITTEE MEMBER RUFFINO: Present.

15 BOARD CLERK TRAN: Jose Luis Pacheco?

16 COMMITTEE MEMBER PACHECO: Present.

17 BOARD CLERK TRAN: Ramón Rubalcava?

18 COMMITTEE MEMBER RUBALCAVA: Here.

19 BOARD CLERK TRAN: Mullissa Willette?

20 COMMITTEE MEMBER WILLETTE: Here.

21 CHAIRPERSON MILLER: All right. Well, on to
22 Item, 2. Our Executive Report.

23 CHIEF COMPLIANCE OFFICER FEIN: Good morning, Mr.
24 Chairman, Madam Vice Chairman, Committee members. My
25 name's Kevin Fein, CalPERS team member and Chief

1 Compliance Officer. Pleased to be with you here this
2 morning.

3 Today you'll be asked to approve the independent
4 auditor's report for the fiscal year 2022 to 2023 and the
5 independent auditor's management letter.

6 The next Risk and Audit Committee meeting is
7 scheduled for February, and it includes the election of
8 the Risk and Audit Chair and Vice Chair, mid-year updates
9 to the 2023-24 annual plans for the Enterprise Compliance
10 and Enterprise Risk Management divisions, as well as
11 third-party valuation and certification of the 2022
12 CalPERS annual valuation of the Judges 1 and 2,
13 legislators, and 59 survivor pension plans.

14 That concludes my report. I'm happy to take any
15 questions.

16 CHAIRPERSON MILLER: Okay. I'm seeing no
17 questions.

18 So that will move us to our action consent items.
19 What's the pleasure of the Committee.

20 COMMITTEE MEMBER PACHECO: I move.

21 CHAIRPERSON MILLER: Being moved by Director
22 Pacheco.

23 VICE CHAIRPERSON MIDDLETON: Second.

24 CHAIRPERSON MILLER: Seconded by Director
25 Middleton.

1 Any discussion?

2 I'll call for the question. All in favor, aye.

3 (Ayes.)

4 CHAIRPERSON MILLER: Any abstentions?

5 Any nays?

6 Unanimous. The ayes have it.

7 I haven't had any requests to pull any of the
8 information consent items in Item 4. So we'll move on to
9 Item 5, our action agenda items.

10 CHIEF AUDITOR CHAPPUIE: Checking the time.

11 Good morning, Mr. Chair and members of the
12 Committee. Beliz Chappuie, Office of Audit Services.

13 Agenda Item 5a is an action item. Staff is
14 requesting the Risk and Audit Committee to approve the
15 Board's independent financial statement auditor -- BDO's
16 audit reports for the fiscal year ending June 30, 2023.

17 I want to turn it over to the BDO staff here
18 presenting with me today.

19 BILLY KIM: Hello, Chair, Vice Chair, and
20 Committee members. I'm Billy Kim. I work with BDO.

21 Thank you for the time for us to come here to
22 present our audit results to you.

23 With me here today I have Sylvia Mak at the end
24 and then also Dipika Nagin as well, who are both audit
25 directors and work with me assisting in leading the audit

1 team.

2 Also calling in Keith Hammond who's also on the
3 phone. He's our quality control reviewer as well who
4 assists me in ensuring that we adhere to quality
5 standards.

6 Overall, in terms of our -- scope of our audit,
7 we can go to slide 4, please.

8 --o0o--

9 BILLY KIM: Yeah, in terms of the scope of our
10 audit, includes the audit over CalPERS' basic financial
11 statements. And this is for the fiscal year ended June
12 30th, 2023. This includes the financial statements over
13 the fiduciary funds as well as some proprietary funds of
14 CalPERS.

15 Currently we are substantially completed with our
16 audit, expected to be issuing at the end of this week.
17 And we're expected to be issuing an unmodified audit
18 opinion over the financial statements for CalPERS.

19 I'll also be issuing a report over internal
20 controls over financial reporting and compliance. A draft
21 of both of these have been provided in advance and they're
22 attached as Agenda Item 5a.

23 I also want to highlight that overall from an
24 audit coordination perspective, we received full
25 cooperation from management throughout the audit. All of

1 our requests that we've asked for were made available upon
2 for inspection.

3 If we can move to the next slide, please.

4 --o0o--

5 BILLY KIM: So this slide here discusses about
6 the results of our audit. I'm going to highlight a couple
7 different items here.

8 So first off, as relates to significant
9 accounting practices and policies, there are no changes
10 that we had noted in the current year. As relates to
11 significant accounting standards, there are no specific
12 significant ones that we've noted that were adopted in the
13 year.

14 In terms of accounting estimates, there's four
15 areas that I want to go through and talk with the
16 committee, two of which we consider to be significant
17 estimate areas.

18 The first is an area related to valuation of
19 private equity and real asset investments as of June 30th.
20 This is where you have associated audited statements of
21 those funds, and particularly ones where you have a
22 separate year-end that's not consistent with the CalPERS
23 year-end. So what I mean by that is CalPERS year-end is
24 June 30th, while a large portion of the private equity and
25 some real asset investments funds have a year-end of

1 December 31st.

2 Therefore there's an estimation involved in
3 assessing the change in value of those investments for
4 that period of time between the audited financial
5 statement date of 12-31 for those investment funds until
6 June 30th, which is the date of the CalPERS financial
7 statements. So for these investments management has a
8 process in place in obtaining, analyzing unaudited
9 investment valuation information as of June 30th, and they
10 receive, you know, the relevant information from each of
11 the investment funds as part of their financial reporting
12 process. And we're -- we -- as part of our audit work we
13 assess this analysis and the entries that are made are
14 related to this area; and some of the work that we do do
15 as relates to this audit work includes auditing their
16 contributions that are made, distributions that are made
17 as well, also auditing the unrealized gains and losses
18 throughout the year. And then also during this sort of
19 combination of analytical procedures, detailed testing,
20 and also confirmations that we send to the underlying
21 investment funds.

22 So based upon the work that we performed we noted
23 no specific issues as related to the valuations of
24 investments.

25 The next area of estimation is -- significant

1 estimate is to liability for future policy benefits. This
2 is specifically related to the Long-Term Care Fund. This
3 is the liability that's derived from a roll-forward
4 method. It includes assumptions from the latest valuation
5 report. And one of those key assumptions that we
6 specifically look at is to discount rate. And based upon
7 the work including by our own independent actuarial
8 specialist, we noted no issues with that discount rate
9 amongst the other assumptions involved as well.

10 The procedures over this included performing also
11 an analytical analyses sample testing and also procedures
12 on ensuring that there's accuracy and completeness of the
13 data used within the models as well.

14 So we had noted no specific issues with those
15 procedures.

16 However, this year, this estimate was also
17 impacted by the long-term care class action settlement.
18 So this actually involved a proposed audit adjustment
19 proposed by my team BDO to properly reflect the future
20 participation in a plan which we'll detail further on a
21 separate slide.

22 Other estimates that we did also focus on as part
23 of our audit work is the Health Care Fund estimated claims
24 of liability. This is a liability that uses actuarial
25 methodology based on historical claims data for each of

1 the medical plans. And then lastly there's an estimate
2 for pension liabilities for cost sharing plans including
3 the PERF B, PERF C, and then single-defined benefit plans.

4 For these areas on top of the detailed testing
5 performed we also utilized our own actuaries as well
6 independently to review management's actuarial models,
7 methodology, calculations, and also the related
8 assumptions.

9 So based upon the work performed, we also noted
10 no issues for those other two estimates.

11 Slide 6, please.

12 --o0o--

13 BILLY KIM: Now this slide talks about the
14 qualitative aspects of CalPERS financial reporting process
15 and all of which is what we assess as part of our audit
16 work.

17 Now I'll pass it up to Dipika, who will present
18 the remaining slides.

19 DIPIKA NAGIN: Thank you, Billy.

20 Can we move to the next slide.

21 --o0o--

22 DIPIKA NAGIN: Okay. So this slide here shows
23 the misstatement Billy was talking about earlier. I just
24 wanted to mention that management has recorded and
25 corrected for this.

1 The first part of the entry is actually to
2 overstate the LTC future policy benefits liability in the
3 amount of 632 million.

4 The initial entry to liability did not reflect
5 the impact of members who expected to surrender their
6 long-term care policy as a part of the settlement.

7 The second part of this entry is correcting
8 for -- is to reclassify the 764 million in
9 settlement-related expenses into the correct expense line
10 item, moving the initially recorded amount from claims
11 expense into settlement expense.

12 All right. And next slide.

13 --o0o--

14 DIPIKA NAGIN: One more.

15 --o0o--

16 DIPIKA NAGIN: Okay. This slide points out that
17 we are required to report any material weaknesses or
18 significant deficiencies identified as part of our audit
19 to the Risk and Audit Committee. It also contains a
20 definition of each deficiency level.

21 We noted one material weakness related to the
22 adjustment that we just mentioned. The material weakness
23 was issued over the internal controls pertaining to the
24 assessment of the appropriate accounting and presentation
25 of the estimated settlement liability within the LTC fund.

1 We will cover this in more detail in our next agenda item.

2 Next slide.

3 --o0o--

4 DIPIKA NAGIN: One more.

5 --o0o--

6 DIPIKA NAGIN: Thank you.

7 Okay. And this slide here -- the next couple
8 slides actually are covering our other required
9 communications. I will highlight a few of these for our
10 meeting.

11 The first one is that there weren't any major
12 changes to our planned audit strategy or our risk
13 assessment that we communicated to you in June.

14 The second, we utilize our internal firm
15 specialists for -- which included investment valuation and
16 our actuarial specialist as well.

17 Third, with regards to the June cybersecurity
18 incident that occurred at PBI, the third party vendor, we
19 reviewed management's investigation of the breach by
20 performing inquiries with management and counsel,
21 reviewing the contract with the third party, and reviewing
22 other supporting documents. Based on our review, we do
23 not take exception to the conclusions of management's
24 investigation.

25 Next slide.

1 --o0o--

2 DIPIKA NAGIN: So the last piece I wanted to
3 cover here is that there were no disagreements with
4 management or any significant difficulties encountered
5 during the audit.

6 And then the next slide.

7 --o0o--

8 DIPIKA NAGIN: Okay. This slide here is related
9 to independence. As required by our professional
10 standards, we reaffirm to you, the Committee, that as your
11 external auditors, we are independent of CalPERS.

12 Next slide.

13 --o0o--

14 DIPIKA NAGIN: Okay. This final slide contains
15 information regarding BDO's quality management, to remind
16 you that we are subject to quality management standards
17 and we strive to ensure we adhere to these standards.

18 Thank you all for your time; and that concludes
19 our plan presentation.

20 CHAIRPERSON MILLER: Okay. Thank you for that
21 very clear presentation. And particularly thank you for
22 the explanation of the timing on how the -- that impacted
23 those. It makes it a lot more clear right from the
24 get-go. So easier for us to understand.

25 Okay. I have Director Middleton.

1 VICE CHAIRPERSON MIDDLETON: All right. Thank
2 you. And thank you for the report. Thank you for this.

3 I want to go back and just fill in some
4 information regarding the one change that was there. This
5 was recorded originally as a claims expense in the amount
6 of \$631,700,000; is that correct?

7 BILLY KIM: It is claims expense of seven hundred
8 sixty-four --

9 VICE CHAIRPERSON MIDDLETON: Okay.

10 BILLY KIM: No, the other way.

11 VICE CHAIRPERSON MIDDLETON: The other way.

12 CHAIRPERSON MILLER: The other way.

13 BILLY KIM: All right. So that the second part
14 of the entry was just to reclassify from one expense area
15 to the other. So from claims expense to the settlement
16 expense changed.

17 VICE CHAIRPERSON MIDDLETON: In both instances
18 this was an expense and it did not change the bottom-line
19 profit and loss of CalPERS; is that correct?

20 BILLY KIM: That specific part of the entry did
21 not. But there was also the first part of the entry that
22 essentially cause a reduction, right, in terms of the
23 amount of the overall liability for the long-term care.

24 VICE CHAIRPERSON MIDDLETON: All right.

25 And the original data when this was recorded as a

1 claims expense was when?

2 BILLY KIM: Can you repeat the question again.

3 Sorry.

4 VICE CHAIRPERSON MIDDLETON: When did it first
5 appear as a claims expense? And what I'm trying to get to
6 is the timeline. When did CalPERS record it as the claims
7 expense; when did you identify that it should have been a
8 settlement expense, you know, of a different amount, and
9 when was the correction completed?

10 BILLY KIM: Yeah. So in terms of them recording
11 as a claims expense, I believe this was part of their
12 closing process, right, that took place say in July --
13 around July each time frame. And then when we had
14 identified this as we were going through an auditing of
15 related support and reviewing the financial statements,
16 which was I believe at the end of September, beginning of
17 October.

18 VICE CHAIRPERSON MIDDLETON: Okay. And was there
19 any debate within the organization -- within CalPERS as to
20 whether or not to make this change?

21 BILLY KIM: Not --

22 VICE CHAIRPERSON MIDDLETON: With you?

23 BILLY KIM: Yeah, yeah. No, there was
24 discussion, but we made sure it was just making sure we
25 were on the same page as relates to the facts of the

1 matter, right, in terms of -- and there was no -- there
2 was no disagreement.

3 VICE CHAIRPERSON MIDDLETON: All right. Thank
4 you very much.

5 CHAIRPERSON MILLER: Okay. Thank you.

6 I have Director Pacheco. Whoops, it doesn't --
7 hit your button again.

8 There we go.

9 COMMITTEE MEMBER PACHECO: Thank you, Chairman
10 Miller.

11 And thank you very much for the report. It's
12 always very enlightening when I read this.

13 My question is back to the significant accounting
14 estimates and the private equity and real estate
15 investments. Now, when you were in the process of doing
16 that, did you take a -- did you look at all of them or did
17 you take a sample of the investments?

18 BILLY KIM: Yeah, we do a sampling approach. And
19 so we do end up going through and, based upon our guidance
20 and sampling methodology, we do make selections across.

21 COMMITTEE MEMBER PACHECO: And from your analysis
22 you mentioned that most or many of the -- from the sample,
23 they were in this other year -- they were -- the private
24 equity evaluations were evaluated to December 31st, while
25 ours -- our fiscal year is from July to June 30th; is that

1 correct?

2 BILLY KIM: Yeah, just to clarity --

3 COMMITTEE MEMBER PACHECO: Yes, please.

4 BILLY KIM: -- the investment funds are audited.

5 And usually a lot of these private equity funds are
6 calendar year-ends. So when they get an audit, it's done
7 as of that calendar year-end. So given that's the case,
8 there's six months, right, that is -- that's different in
9 terms of what's unaudited, so to speak, of investment
10 activity for that investment fund. But there's still
11 underlying statements and support that's received from the
12 investment fund so that you're able to properly assess
13 what the change in value should be. But that is something
14 that what we end up doing is receiving all of that
15 information that management has received and assessed, and
16 then also just ensuring that we're coming to the same
17 conclusion.

18 COMMITTEE MEMBER PACHECO: So from the estimates
19 then? You're estimating --

20 BILLY KIM: Yes.

21 COMMITTEE MEMBER PACHECO: -- from -- from what
22 the -- what's been provided from these -- from the private
23 equity funds and so forth, and reconcile I mean with
24 respect to what we -- our stuff is on our side on CalPERS?

25 BILLY KIM: Yes.

1 COMMITTEE MEMBER PACHECO: Okay. Very good then.
2 That's all I wanted to know. Thank you.

3 CHAIRPERSON MILLER: Okay. I have Frank Ruffino.

4 ACTING COMMITTEE MEMBER RUFFINO: Thank you, Mr.
5 Chair.

6 Just a couple of questions. Will the recently
7 proposed changes in ESG reporting requirements, will they
8 affect CalPERS financial statements going forward

9 BILLY KIM: I mean it's definitely something that
10 should be considered, right. But, you know, as it relates
11 to what is going to be, I guess, effective, right, it's
12 still being assessed, right. So that is something that we
13 tell all of our clients we should be keeping abreast of
14 what's going on in that and, you know, the ongoing
15 regulation requirements that will take place.

16 But for the near future, we're seeing a lot of
17 organizations just volunteer and just trying to move in
18 that direction, a voluntary adherence to a lot of the
19 things that are coming out from these -- from these --
20 from the ESG standards. So...

21 ACTING COMMITTEE MEMBER RUFFINO: So it sounds
22 like nothing we -- difficult to say whether or not they
23 will affect us in some ways.

24 BILLY KIM: Eventually, right. But I think at
25 this point, you know, there's -- it's not necessarily

1 something that will be effective like this coming year, et
2 cetera. So...

3 ACTING COMMITTEE MEMBER RUFFINO: Okay. And
4 along those lines, is there any significant new GASB rules
5 in financial reporting that will affect next year's
6 financial statement?

7 BILLY KIM: No, there's nothing that we're aware
8 of that would have a significant impact for this coming
9 year.

10 ACTING COMMITTEE MEMBER RUFFINO: And lastly, was
11 there any asset class that received special attention
12 during the audit?

13 BILLY KIM: Yeah. As relates to what I had just
14 specifically mentioned about private equity, real assets.
15 And that's again based upon the risk assessment that we
16 do. But all of the asset classes though have been subject
17 to audit. And we've done audit work over everything
18 related to investments, whether it's public equity, debt,
19 and -- but we do take some special consideration and
20 extended procedures over private equity. Real assets
21 especially where you'd have this gap period that I had
22 talked about.

23 ACTING COMMITTEE MEMBER RUFFINO: And maybe I
24 should have said. You mentioned the private equity.
25 Other than private equity, any other asset class that --

1 that requires special attention, for lack of a better
2 word?

3 BILLY KIM: No. But they're all subject to
4 audit -- and we do do audit procedures to cover our bases
5 to make sure we're covering the risks of material
6 misstatements for those areas. Yeah.

7 ACTING COMMITTEE MEMBER RUFFINO: Okay. Thank
8 you. Thank you for your work. Thank you for the whole
9 team actually, now that it's involved. I know it's not a
10 small task.

11 Thank you, Mr. Chair.

12 CHAIRPERSON MILLER: Okay. Yeah. And, again,
13 thank you. It's always amazing to me how much work gets
14 done. I know this year there was some challenges with
15 some changes internally with who was working on what, and
16 everything. And so I'm glad to hear that things went
17 well, that our working relationships continue to be
18 strong, and that everybody was able to get what they
19 needed and we've got good work product in front of us.
20 And thank you to you and your whole team. And thanks to
21 CalPERS and the whole CalPERS team, because it's
22 definitely a big lift for everybody and requires a lot of
23 teamwork and coordination among everyone.

24 So thank you all.

25 And with that we'll move to 5b, the Review of the

1 Independent Auditor's Management Letter.

2 CHIEF AUDITOR CHAPPUIE: Mr. Chair, that was an
3 action item.

4 CHAIRPERSON MILLER: Oh, no. That's right. We
5 have to vote separately.

6 Okay. So I'll entertain a motion to approve.

7 COMMITTEE MEMBER PACHECO: So move.

8 CHAIRPERSON MILLER: It's being moved by Director
9 Pacheco.

10 VICE CHAIRPERSON MIDDLETON: Second.

11 CHAIRPERSON MILLER: Seconded by Director
12 Middleton.

13 Any further discussion?

14 Hearing none. I'll call for the question.

15 All in favor, aye.

16 (Ayes.)

17 CHAIRPERSON MILLER: Any nays?

18 No abstentions?

19 The ayes have it. It's unanimous.

20 And I didn't have any requests from the public to
21 speak.

22 So that will move us to 5b.

23 CHIEF AUDITOR CHAPPUIE: Mr. Chair and members of
24 the Committee. Beliz Chappuie.

25 Agenda Item 5b is also an action item. Staff is

1 requesting the Risk and Audit Committee to approve the
2 Board's Independent Financial Statement Auditor BDO's
3 draft management letter.

4 I want to turn it back over to the BDO staff.

5 SYLVIA MAK: Thank you, Beliz.

6 Mr. Chair, Madam Vice Chair, and members of the
7 Committee.

8 In planning and performing our audit of the
9 financial statements of CalPERS for the fiscal year 2023,
10 we considered CalPERS's internal controls over financial
11 reporting as a basis for designing our audit procedures
12 for the purpose of expressing our opinion on the financial
13 statements but not for the purpose of expressing opinion
14 on the effectiveness of internal controls.

15 Dipika provided to you with an overview of the
16 definitions of control finding categories in the prior
17 agenda item, so I will not go through those with you
18 again.

19 In connection with our audit, we identified one
20 material weakness and one deficiency. I'll start by
21 reviewing the material weakness.

22 Each year CalPERS estimates the amount of
23 liabilities associated with the Long-Term Care Fund future
24 liabilities. Recently the settlement of the class-action
25 lawsuit impacted the probability, timing and nature of

1 those future liabilities.

2 Generally accepted accounting principles require
3 changes in estimates of claim costs be recognized in the
4 periods those estimates are changed.

5 Management had correctly estimated the long-term
6 care settlement liability. However, the offsetting impact
7 to other accounts because of those changes were not, which
8 resulted in a material overstatement of a long-term future
9 benefits liability and related expenses and a
10 misclassification of the settlement expense.

11 The adjustment to correct the error was proposed
12 by BDO and corrected in the financial statements by
13 management. We determined the error resulted from a
14 material weakness and review controls surrounding the
15 appropriate accounting and presentation of estimates
16 related to the estimated settlement liability for the
17 Long-Term Care Fund. The initial entry was recorded
18 without considering all current information including
19 details on how the settlement would impact future
20 participation in the plan.

21 We recommend management implement a control for
22 significant and unusual transactions where management
23 ensures they obtain and consider all related information
24 when assessing accounting conclusions.

25 Management has indicated to enhance internal

1 controls going forward Financial Reporting and Accounting
2 Services, FRAS, will review any entries related to unusual
3 transactions to make sure all related information is
4 considered before recording in the financial statements.

5 If transactions are identified, FRAS will assess
6 for proper accounting and recording in accordance with
7 U.S. Generally Accepted Accounting Principles. We will
8 monitor the implementation of the control in the coming
9 year and will also further assess the operation the
10 control put into place as part of our 2024 audit.

11 Next, in relation to identified control
12 deficiency, we observed seven developers in the Automated
13 Real Estate Investment System, AREIS, with security and
14 administrative access to the database of AREIS. The
15 Database Administrative Access Rule provides users with
16 the ability to deploy changes directly to the system
17 without oversight. We observed users with database
18 security administrative access have full access to the
19 database, meaning they can read, write and edit. This
20 results in a segregation-of-duties conflict because it
21 provides the individual with potential ability to modify
22 the report logic within the database without approval.

23 Although CalPERS segregated developers and
24 deployers on the application level, having full access to
25 a database can bypass the system functionality, resulting

1 in a segregation-of-duties conflict.

2 Additionally, no audit is being performed of the
3 system's change logs or the database log in access reports
4 to check for and investigate anomalies.

5 In response to the deficiency, management has
6 removed the developer group's access to the production
7 database. We recommend to further strengthen controls
8 change logs be reviewed on a regular basis for
9 appropriateness by an individual who does not have deploy
10 access or database access to AREIS.

11 We will continue to monitor the improvements to
12 the control into the coming year, and we'll also further
13 assess the operation of the control put into place as part
14 of our 2024 audit.

15 Finally, we also wanted to take an opportunity to
16 look back at the prior year, 2022, control finding. As
17 part of the prior we Identified a deficiency related to
18 the review for classification of investment receivables.
19 Specifically to appropriately record proceeds receivables
20 from the sale of investments we have recommended
21 management implement a control during its year in review
22 to identify whether any proceeds from sales that have
23 taken place prior to year-end are still to be received;
24 and if so, to assess for proper classification of them on
25 the financial statements.

1 During the current fiscal year, management
2 enhanced its controls as recommended to ensure the proper
3 classification of any proceeds from investment sales that
4 have taken place prior to year-end and are still to be
5 received. We concur with management that this control
6 finding has been remediated.

7 This concludes our remarks on the management
8 letter, and we will open it now for questions.

9 Thank you.

10 CHAIRPERSON MILLER: Thank you.

11 We have a question from Director Pacheco.

12 COMMITTEE MEMBER PACHECO: Again, thank you very
13 much for this letter and so forth.

14 So my first question is around the developers.
15 So the seven -- you mentioned there were seven developers
16 that had full access -- am I correct -- of the database
17 production?

18 SYLVIA MAK: Yes, they had full access. So they
19 had full administrative access to be able to read, write
20 and edit.

21 COMMITTEE MEMBER PACHECO: And before that
22 happened, was there any -- when you were reviewing the
23 documentation around this, was there any sort of
24 governance or security governance documentation that could
25 have given some guidance on why that was the -- well,

1 whether that was the case beforehand or -- I'm just
2 curious.

3 BILLY KIM: So as part of the policy they're not
4 supposed to have that type of access.

5 COMMITTEE MEMBER PACHECO: Oh, I see.

6 BILLY KIM: Right. And so that is something
7 that, you know, we had observed as an issue, right.
8 And -- but at the same time I would just say we did not
9 see any evidence of anything that they did
10 inappropriately.

11 COMMITTEE MEMBER PACHECO: Okay. And then now --
12 looking forward now, there's segregation of duties then,
13 so there's now a new enhanced internal control now.

14 SYLVIA MAK: Correct. It was this -- the access
15 was removed pretty much right away once CalPERS was
16 informed.

17 COMMITTEE MEMBER PACHECO: And so then moving
18 forward then when we do these audits again, we will be
19 able to make sure that's -- that's a follow-up next year
20 to --

21 SYLVIA MAK: That's correct. Yeah, we will
22 continue to monitor that to make sure that the access has
23 continued to stay removed.

24 COMMITTEE MEMBER PACHECO: Thank you very much.

25 CHAIRPERSON MILLER: Okay. I'm seeing no other

1 requests to speak.

2 So thank you. I appreciate that. I, again,
3 appreciate the work and appreciate the clarity of the
4 letter and ability for us to, you know, follow-up again
5 and mostly fully -- as with virtually all these things,
6 once they've been identified and mitigated, we get the
7 reporting that, you know, there's been an improvement and
8 it's worked. So let's hope that we continue that in to
9 the future.

10 Okay. At this point, I don't have any requests
11 from the public to speak on this item. So we'll go ahead
12 and I'll entertain a motion to --

13 COMMITTEE MEMBER PACHECO: Move.

14 CHAIRPERSON MILLER: Moved by Pacheco.

15 Seconded by --

16 VICE CHAIRPERSON MIDDLETON: (Hand raised).

17 CHAIRPERSON MILLER: -- Middleton.

18 So I'll call for the question. All in favor
19 please say aye.

20 (Ayes.)

21 CHAIRPERSON MILLER: Any nays?

22 Any abstentions?

23 It's unanimous. The ayes have it.

24 And that moves us to our information agenda
25 items. Summary of Committee Direction.

1 CHIEF COMPLIANCE OFFICER FEIN: Thank you, Mr.
2 Chairman. I took note of no Committee direction.

3 CHAIRPERSON MILLER: Okay. And I have no
4 requests to speak from the public at this point. So we'll
5 recess now into closed session for items 1 to 3 from the
6 closed session agenda. Then we'll immediately reconvene
7 in open session after the closed session.

8 Thank you.

9 (Off the record: 12:05 p.m.)

10 (Thereupon the meeting recessed
11 into closed session.)

12 (Thereupon the meeting reconvened
13 into open session.)

14 (On the record: 12:38 p.m.)

15 CHAIRPERSON MILLER: So we're back in open
16 session. And unless I hear an objection, we are
17 adjourned.

18 (Thereupon the California Public Employees'
19 Retirement System, Board of Administration,
20 Risk & Audit Committee open session
21 meeting adjourned at 12:38 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 28th day of November, 2023.



JAMES F. PETERS, CSR
Certified Shorthand Reporter
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