

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

WEDNESDAY, JUNE 21, 2023
11:34 A.M.

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

APPEARANCES

COMMITTEE MEMBERS:

David Miller, Chairperson

Lisa Middleton, Vice Chairperson

Malia Cohen, represented by Lynn Paquin

Fiona Ma, represented by Frank Ruffino

Jose Luis Pacheco

Ramon Rubalcava

Mullissa Willette

BOARD MEMBERS:

Theresa Taylor, President

Kevin Palkki

Yvonne Walker

STAFF:

Marcie Frost, Chief Executive Officer

Matt Jacobs, General Counsel

Kevin Fein, Chief Compliance Officer

Belize Chappuie, Chief Auditor

APPEARANCES CONTINUED

ALSO PRESENT:

Steve Franklin, BDO

Keith Hammond, BDO

Bill Kim, BDO

Sylvia Mak, BDO

Dipika Nagin, BDO

INDEX

	<u>PAGE</u>
1. Call to Order and Roll Call	1
2. Executive Report - Kevin L. Fein	1
3. Action Consent Items - Kevin L. Fein	2
a. Approval of the June 21, 2023 Risk and Audit Committee Timed Agenda	
b. Approval of the February 13, 2023 Risk and Audit Committee Meeting Minutes	
4. Information Consent Items - Kevin L. Fein	3
a. Annual Calendar Review	
b. Draft Agenda for the September 19, 2023 Risk and Audit Committee Meeting	
c. Quarterly Status Report - Office of Audit Services	
d. Status Report - Enterprise Risk Management	
e. Status Report - Enterprise Compliance Activity	
f. External Audit Fees	
5. Action Agenda Items	
a. 2023-24 Enterprise Compliance and Risk Management Plans - Kevin L. Fein	3
b. 2023-24 Office of Audit Services Plan - Beliz Chappuie	8
c. Independent Auditor's Annual Plan - Beliz Chappuie	10
d. Conflict of Interest Code Amendment - Kevin L. Fein	27
6. Information Agenda Items	
a. 2022-23 Annual Compliance Report - Kevin L. Fein	29
b. Summary of Committee Direction - Kevin L. Fein	32
c. Public Comment	32
7. Approval to Meet in Closed Session Pursuant to Government Code Section 11126(c)(18)(A) - David Miller	32
8. Report out on Information Security Update and Cybersecurity Briefing	35

INDEX CONTINUED

	<u>PAGE</u>
9. Adjournment of Meeting	36
Reporter's Certificate	37

PROCEEDINGS

1
2 CHAIRPERSON MILLER: Hello. I'd like to call to
3 order the meeting of the Risk and Audit Committee. And
4 the first order of business is our roll call.

5 BOARD CLERK TRAN: David Miller?

6 CHAIRPERSON MILLER: Here.

7 BOARD CLERK TRAN: Lisa Middleton?

8 VICE CHAIRPERSON MIDDLETON: Present.

9 BOARD CLERK TRAN: Lynn Paquin?

10 ACTING COMMITTEE MEMBER PAQUIN: Here.

11 BOARD CLERK TRAN: Frank Ruffino?

12 ACTING COMMITTEE MEMBER RUFFINO: Present.

13 BOARD CLERK TRAN: Jose Luis Pacheco?

14 COMMITTEE MEMBER PACHECO: Present.

15 BOARD CLERK TRAN: Ramón Rubalcava?

16 COMMITTEE MEMBER RUBALCAVA: Present.

17 BOARD CLERK TRAN: Mullissa Willette?

18 COMMITTEE MEMBER WILLETTE: Here.

19 CHAIRPERSON MILLER: Okay. And I note for the
20 record that Kevin Palkki and President Theresa Taylor are
21 also here. Oh. No. Yeah, of course, you are.

22 Okay. Okay. So Item 2, our executive report.

23 CHIEF COMPLIANCE OFFICER FEIN: Thank you and goo
24 morning, Mr. Chairman, Madam Vice Chair, Committee
25 members. Nice to be with you here today. My name is

1 Kevin Fein and I am a CalPERS team member and Chief
2 Compliance Officer.

3 Today, we're bringing to you and asking approval
4 for 2023-24 annual plans for Enterprise Compliance and
5 Risk Management, the Office of Audit Services, and our
6 outside independent auditor BDO. In addition, we're
7 asking for your approval of an amendment to the Conflict
8 of Interest Code, and we'll be presenting that as an
9 action item. The one information item today is our annual
10 2022-23 Annual Compliance Report.

11 The next Risk and Audit Committee meeting is
12 scheduled for September 19th. That concludes my report.
13 I'm happy to take any questions.

14 CHAIRPERSON MILLER: Great. Thank you, sir.
15 Just double check here. I'm not seeing any requests to
16 speak, so we'll move to our action consent items. What's
17 the pleasure of the Committee.

18 COMMITTEE MEMBER PACHECO: I'll make the motion.

19 VICE CHAIRPERSON MIDDLETON: Second.

20 CHAIRPERSON MILLER: Okay. Moved by Pacheco,
21 seconded by Middleton.

22 Any discussion on the matter?

23 All in favor?

24 (Ayes.)

25 CHAIRPERSON MILLER: Any opposed?

1 So again, our goal is fairly similar to last
2 year. We're continuing to maximize, enhance, build on,
3 and mature the processes. The three key priority areas,
4 again much like last year, will focus on our team, the
5 people, on our processes, reporting, monitoring, and
6 assurance, and on technology again that we spoke about
7 last year. If you recall, early this year, we began our
8 transition when we left the Schwab technology system for
9 MyComplianceOffice's personal securities trading modules.
10 That was implemented at the beginning of the year.
11 Everything is running very well with it and we think it's
12 doing a wonderful job. And we have since moved on into
13 other of their capabilities and technologies.

14 And if you look at the next slide, please --

15 --o0o--

16 CHIEF COMPLIANCE OFFICER FEIN: -- you will see
17 over the next two years as we are beginning to bring on
18 more folks, we are just now going back into the market and
19 looking to replace a number of staff that we've lost
20 through attrition over the last year, as well as begin to
21 identify some folks with relevant compliance and risk
22 management experience. And so that's going to be a key is
23 to build up those capabilities and have those folks help
24 upscale the rest of our team who, by the way, have been
25 learning an awful lot over the last 12 months. Doing an

1 and the culture across the enterprise. So that's where
2 we'll be focusing for fiscal 23-24. And happy to answer
3 any questions.

4 CHAIRPERSON MILLER: Any questions?

5 Not seeing any.

6 Oh, we do have Director Pacheco.

7 COMMITTEE MEMBER PACHECO: Yes. Thank you very
8 much for your presentation here. Just on the new -- on
9 the new initiative on number 4, it's stating to educate
10 and cultivate an ethical and risk-intelligent culture.
11 Will there be -- in this new initiative, will there be
12 some reporting processes set in stone -- set later on or
13 I'm just curious how that will be reported out, so that
14 the Board can see the milestones that are achieved and so
15 forth.

16 CHIEF COMPLIANCE OFFICER FEIN: Yeah. There will
17 be and there already is. This is a preexisting process
18 that was under some of the enterprise risk work that we
19 were doing and we've been reporting on that regularly.
20 We're trying to bring that in again, and as we're doing
21 with some of the compliance programs, alter how that
22 works. And so we brought it in as a specific initiative
23 of its own. It is already part and parcel of the five
24 year strategic plan that started this past fiscal year.

25 COMMITTEE MEMBER PACHECO: Um-hmm.

1 CHIEF COMPLIANCE OFFICER FEIN: So this is just
2 bringing that down into a more detailed measurable
3 initiative that we want to make progress on this coming
4 year, but there indeed will be reporting, because it links
5 back up through our key risk indicators.

6 COMMITTEE MEMBER PACHECO: And as a follow-up,
7 would the reporting process be more aggregated or more --
8 be much more -- there will be a dashboard or I'm just
9 trying to...

10 CHIEF COMPLIANCE OFFICER FEIN: Actually, we are
11 working on dashboards right now --

12 COMMITTEE MEMBER PACHECO: Good.

13 CHIEF COMPLIANCE OFFICER FEIN: -- specifically
14 to that. And if you think about the monthly compliance
15 reports that you get in the decks for the RAC meeting,
16 there are a number of data points that we're providing
17 information in there. That's what we're using to begin
18 with, to being to create more of a high level dashboard
19 where you can, at a glance, see green, amber, red. We are
20 also doing it with other of the new activities that we've
21 been launching over the last year.

22 COMMITTEE MEMBER PACHECO: Thank you very much.

23 CHIEF COMPLIANCE OFFICER FEIN: You're welcome.

24 CHAIRPERSON MILLER: Okay. I see no further
25 questions. So at this point, I'd like to entertain a

1 motion to approve the plan.

2 COMMITTEE MEMBER PACHECO: (Raise hand).

3 CHAIRPERSON MILLER: Moved by Director Pacheco.

4 ACTING COMMITTEE MEMBER PAQUIN: Second.

5 CHAIRPERSON MILLER: Seconded by Lynn Paquin.

6 Okay. At that point, I'll -- no further
7 discussion. I'll call for the question.

8 All in favor?

9 (Ayes.)

10 CHAIRPERSON MILLER: Any nays?

11 And abstentions?

12 Seeing none, the motion passes.

13 And that brings us to our next item. So this is
14 the Office of Audit Services Plan.

15 (Thereupon a slide presentation).

16 CHIEF AUDITOR CHAPPUIE: Good morning, Mr. Chair
17 and members of the Committee. Beliz Chappuie, Office of
18 Audit Services. Agenda Item 5b is an action item. Staff
19 requests the Risk and Audit Committee to approve the
20 Office of Audit Services proposed audit plan for the
21 Fiscal Year 23-24. As required by the internal auditing
22 standards, the Office of Audit Services prepared a
23 risk-based audit plan to determine the priorities of the
24 internal audit activity for the next fiscal year. In
25 conducting the risk assessment, the Office of Audit

1 Services is the third line of defense, coordinated its
2 efforts with the second line of defense, the Enterprise
3 Compliance Division. We interviewed CalPERS executive and
4 senior management teams and sought input from the Board
5 members through surveys. Staff also incorporated
6 information from prior audits.

7 In identifying the internal audit assignments and
8 activities, staff evaluated multiple risk factors such as
9 impact on the organization's strategy goals, changes in
10 the operations and regulations, and internal controls.

11 For the employer compliance reviews, the Office
12 of Audit Services plans to complete four review cycles
13 covering one compliance area per cycle. Using data
14 analytics, staff will identify agencies for review for
15 each cycle.

16 As required by the internal audit standards,
17 we'll remain responsive to the changes in the
18 organization's operations and programs, and we will review
19 and update the plan as necessary. Any modification to the
20 audit plan will be communicated to the Committee through
21 the quarterly status reports.

22 This concludes my presentation and I'm happy to
23 answer any questions.

24 CHAIRPERSON MILLER: Okay. I'm not seeing any
25 questions. And so I will entertain a motion to approve

1 the Office of Audit Services Plan.

2 COMMITTEE MEMBER PACHECO: (Raise hand).

3 VICE CHAIRPERSON MIDDLETON: Second.

4 CHAIRPERSON MILLER: And by Director Pacheco,
5 seconded by Director Middleton.

6 I'll call for the question.

7 All in favor?

8 (Ayes.)

9 CHAIRPERSON MILLER: Any nays?

10 Any abstentions?

11 The motion passes.

12 And so we move on to our next item, the
13 independent auditor's annual plan.

14 (Thereupon a slide presentation).

15 CHIEF AUDITOR CHAPPUIE: Okay. All right. Good
16 morning, Mr. Chair and members of the Committee. Beliz
17 Chappuie, office of Audit Services.

18 Agenda Item 5c is an action item. Staff requests
19 the Risk and Audit Committee to approve the Board's
20 independent auditor, BDO's, audit plan to audit CalPERS'
21 financial statements for the fiscal year-ending June 30th,
22 '23. The presentation will allow the Risk and Audit
23 Committee to hear from the independent auditor regarding
24 their approach, objectives, scope, and deliverables for
25 the financial statement audit.

1 BDO staff are presenting with me here and I would
2 like to turn it over to them.

3 BILLY KIM: Thank you Beliz. Hello, Chair, Vice
4 Chair, and members of the Committee. I'm joined here
5 today with my colleagues Steve Franklin who leads our
6 investment audit work and Dipika Nagin who is the director
7 that helps me lead the overall audit. On the phone today,
8 we also have Keith Hammond. He is my EQCR, which is the
9 engagement quality control reviewer. And then also Sylvia
10 Mak who is an assurance director also on the team.

11 Now, for our presentation, I'll walk you through,
12 you know, focusing on specific items and -- as we go
13 through each specific slide.

14 If we can move to slide 5, please.

15 --o0o--

16 BILLY KIM: Okay. Slide 5. Yeah, this is sit.
17 Now, the scope of our services includes performing a
18 financial statement audit over the 2023 fiscal year-ending
19 financial statements of CalPERS. It also includes
20 performing work over the GASB 68 and the GASB 75 employer
21 allocation schedules as well, and also issuing an
22 attestation report over census data related to PERF A.

23 Now, as part of our audit, the financial
24 statements of CalPERS, prior to issuance will report to
25 you the results of our work in November, and also, at the

1 time, we'll be sharing any internal control
2 recommendations that we identify during the audit, and
3 also report to you any results of remediation of prior
4 year findings as well.

5 Next slide.

6 --o0o--

7 BILLY KIM: Now, this slide is a reminder about
8 the responsibilities involved in the financial reporting
9 process. And so the first responsibilities include
10 management's responsibilities, the most important being
11 being responsible for the preparation and fair
12 presentation of the financial statements and its schedules
13 in accordance with generally accepted accounting
14 standards.

15 Now, the Risk and Audit Committee that's yourself
16 is responsible with oversight and accountability of
17 management over this process and also related to the
18 internal controls as well.

19 Next slide, please.

20 --o0o--

21 BILLY KIM: Now, this slide details the auditor's
22 responsibilities. And so BDO is responsible to perform an
23 audit under government auditing standards and to provide
24 an opinion over such financial statements and schedules in
25 conformity with the Generally Accepted Accounting

1 Principles.

2 Next slide, please.

3 --o0o--

4 BILLY KIM: Now, this slide focuses on
5 independence, and specifically confirming that BDO is
6 independent of CalPERS, which is a requirement under our
7 professional standards.

8 Next slide, please.

9 --o0o--

10 BILLY KIM: Next slide.

11 --o0o--

12 BILLY KIM: Now, this slide shows the overall
13 timeline of the audit. And so if you could see with the
14 check box checks that are on the screen, that we're in
15 touch with management throughout the year. This is to
16 provide real-time updates, but also to obtain any feedback
17 along the way, also to hear about any specific changes
18 that have taken place within the organization so that we
19 can properly plan for addressing them as it relates to our
20 audit.

21 Currently, we are at the stage of wrapping up our
22 audit planning and interim work. This is -- this -- end
23 of this month is when we're going to be completing all of
24 that. And currently no issues to report to you today.
25 But as mentioned earlier, we will report to you the

1 overall results of our audit prior to issuance of the
2 financial statements in Novem -- in the November RAC
3 meeting.

4 Next slide, please.

5 --o0o--

6 BILLY KIM: Next slide.

7 --o0o--

8 BILLY KIM: All right. So this slide and the
9 next one talks about our audit strategy process. And how
10 it initially starts is, first, performing a risk
11 assessment of the organization regarding the financial
12 reporting process. And this process ultimately drives the
13 audit procedures that we actually ultimately perform.

14 It's a top-down risk-based approach, where we
15 first, you know, start asking where things can go wrong
16 with the financial reporting process, looking at each of
17 the financial statement line items, and assessing, you
18 know, what's the likelihood, what's the magnitude of
19 errors or misstatements that could take place. And what
20 primarily drives this is based upon our understanding of
21 the industry, our understanding of your organization, any
22 changes that have taken place from year to year, any new
23 areas of complexity or estimation, judgment, new policies,
24 procedures.

25 And so for us, as part of what we do to gain that

1 So, Steve, you want to start with investments.

2 STEVEN FRANKLIN: Thank you, Billy. Yeah, I will
3 start with investments, given that's the area I cover.

4 So, yeah, as Billy said, we're have a lot of good
5 planning sessions and calls with management. We've had --
6 performed our fraud inquiries and held some walkthroughs
7 to go through the processes that -- you know, the key
8 processes that we need to evaluate as part of our audit
9 procedures. So those are almost done. I have a few
10 things left to do, but that's very close.

11 When I think about investments, I -- we think
12 about it really in two buckets. There's the level 1,
13 level 2 securities, which are the public securities, which
14 are the typical stocks and fixed income securities that
15 are priced easily on an exchange. And for those ones, we
16 will have a similar plan to last year, where we will be
17 confirming a substantial portion of the investments with
18 the custodians, and with the third parties, and State
19 Street and the like. We will also be doing a significant
20 amount of pricing work to validate the price of the
21 securities. And so we anticipate our procedures to be
22 very similar to last year from that perspective.

23 The other aspect of the investment portfolio is
24 really the private equity and real assets aspect of it.
25 And those are, you know, not public. You know, those are

1 values and they're practical expedient. And so for those
2 areas where we will be -- a little more risk we've
3 identified related to those investments, we will be doing
4 again similar procedures to last year, where will sending
5 confirmations to the underlying fund advisors to confirm
6 the existence and the value of those investments. We will
7 also be obtaining audited financial statements of those
8 investment funds that CalPERS has invested in to validate
9 those procedures.

10 And we will also be doing some additional
11 valuation work around the gap period, so the time period
12 between 12/31, which is when the audited financial
13 statements and the underlying funds are issued, and 6/30,
14 CalPERS fiscal year-end. So we'll do some analysis,
15 analytics, much like what was mentioned earlier, in order
16 to validate and get comfortable with the valuation.

17 The last piece will be the lag analysis around
18 getting the capital statements and information related to
19 the private equity and real assets investments. And so we
20 will do a similar analysis where we look at the updated
21 statements as soon as they come in and ensure that the
22 valuation and the values recorded for those securities are
23 in line with what we'd expect and what the most recent
24 capital statements show.

25 That's pretty much it from on the investment

1 side. And again, we had a very successful year last year
2 from the investments perspective and we're looking forward
3 to another one this year.

4 Dipika.

5 --o0o--

6 DIPIKA NAGIN: Thank you, Steve. I'll cover the
7 remaining areas of focus and significant risks. So
8 continuing with another area of significant risk is the
9 area of fraud, including management override of controls.
10 This is an area we need to consider for all of our audits.
11 For CalPERS, this includes sending out external
12 third-party confirmations, reviewing the tip line
13 activity, and also performing risk-based testing, which
14 includes looking at journal entries as well.

15 Another significant estimate is the long-term
16 care liability for future policy benefits for the Long
17 Term Care Fund. We are planning to use our actuarial
18 specialist to assist us in reviewing the actuarial
19 valuation reports, including the review of management's
20 estimation methodology and any key assumptions used. We
21 will also be evaluating management's accounting impact --
22 or accounting treatment for the impact of the long-term
23 care class action settlement.

24 Revenue is also a significant risk for the
25 proprietary funds. We will be testing a sample of premium

1 and administrative fees revenue, in addition to performing
2 substantive analytical procedures over existence,
3 completeness and accuracy.

4 Other areas of focus for audit include the
5 estimated insurance claims due for the Health Care Fund.
6 This is a short term liability. We will also be utilizing
7 the assistance of our actuarial specialists to review the
8 methodology and calculation of the liability.

9 The next area of focus is the Pension and Other
10 Post-Retirement Benefit liabilities and their related
11 disclosure. We will test the census data for completeness
12 and accuracy. We'll use our in-house actuarial
13 professionals to assist us in reviewing the pension
14 valuation reports that's prepared by CalPERS actuaries.
15 And also we'll perform recalculation procedures.

16 Addition areas of focus include plan
17 contributions and benefit payments. We'll utilize a
18 combination of sample testing as well as analytical
19 analyses to get comfortable over those amounts.

20 And then finally, we will focus on information
21 systems. As part of our planning process, we have been
22 working to identify all the systems that are relevant to
23 the financial reporting process. For those systems, we
24 perform procedures in reviewing their internal controls.

25 Moving to the next slide here.

1 --o0o--

2 DIPIKA NAGIN: So the next couple slides just
3 include -- they're informational slides and they include
4 BDO resources that relate to the public sector and ESG.

5 BILLY KIM: With that, that concludes our
6 presentation and we're open for any specific questions you
7 may have.

8 CHAIRPERSON MILLER: Okay. I have Director
9 Pacheco.

10 COMMITTEE MEMBER PACHECO: Thank you very much
11 for your presentation. Always appreciate the preparation
12 of an audit plan. It's very, very important in the entire
13 system.

14 My question is back on the audit area of focus.
15 Actually, the last -- the last one first and then I'll go
16 back -- I'll go to the investment. On the system -- on
17 the information systems, you also mentioned in your focus
18 discussion on cybersecurity controls. Could you elaborate
19 a little bit on that as well? I know that you are
20 focusing on financial reporting processes. But in the
21 add -- with the climate of all these hacks going on in the
22 world and so forth, I'd like to know how -- what the
23 process is on that.

24 BILLY KIM: Yes. That is part of our normal
25 procedure assess -- is getting an understanding over the

1 overall information systems, because even -- including
2 cybersecurity controls, may have an actual impact to the
3 financial reporting process, whether it's directly or
4 indirectly. And so with that said, as part of our
5 process, what we -- what that entails is when we go and
6 understand what systems are in place.

7 COMMITTEE MEMBER PACHECO: Um-hmm.

8 BILLY KIM: One of the components that we assess
9 is what are the relevant cybersecurity controls that exist
10 for each of those systems? And there could be situations
11 where some of these systems may have some online type of
12 connection. And, you know, we just want to -- we need to
13 make sure that there's no risk or if there's a risk, that
14 that is -- that is understood. And then also, where there
15 is any specific issues that may have come up during the
16 year. And if there is any issue that have come up, then
17 making sure that we assess that it didn't have a financial
18 impact. And if it did, then just -- then going through
19 that assessment just to make sure that there's no issues
20 of any material misstatements or internal control issues
21 that raise to a level that we need to communicate to you.

22 COMMITTEE MEMBER PACHECO: Very good. And thank
23 you very much.

24 BILLY KIM: Sure.

25 COMMITTEE MEMBER PACHECO: And then my second

1 question is on -- related to the investment and related
2 incomes and disclosures related to the aspect of the
3 capital valuations and so forth. So in terms of that,
4 what is that process? Is that a sampling process? I
5 think you mentioned you would be doing the audit between
6 12/31/2022 to 6/30/2023. If you can just elaborate on
7 that, please.

8 STEVEN FRANKLIN: Yeah. So when I was speaking
9 about that, so, you know, a lot of the underlying
10 financial statements -- audited financial statements of
11 the funds that you invest -- that CalPERS invests in from
12 the private equity perspective have audited financial
13 statements as of 12/31 and CalPERS year-end is 6/30. So
14 as part of the audit pro -- there's a -- there's a gap
15 there of six months between the values that are audited by
16 the underlying -- in the underlying -- in the underlying
17 audited financial statements --

18 COMMITTEE MEMBER PACHECO: Um-hmm.

19 STEVEN FRANKLIN: -- and what CalPERS is
20 reporting. And so what we want to do is we confirm -- we
21 send confirmations to the underlying portfolio investment
22 firms what the balance -- what CalPERS balances is as of
23 6/30, but we also want to just make sure that -- but
24 they're not audited and so we want to do some analysis
25 over that period to make sure that the unrealized and

1 realizes gains over that period, that six months, makes
2 sense in align with what the market is and what we're
3 seeing in other valuations across the economy.

4 So it's really just -- I'm just -- I'm
5 highlighting that the year-ends are non-coterminous, you
6 know, CalPERS versus the underlying funds and just need to
7 do some additional procedure over that gap. For the real
8 estate assets --

9 COMMITTEE MEMBER PACHECO: Um-hmm.

10 STEVEN FRANKLIN: -- all those audited financial
11 statements are as of 6/30, so that provides us with
12 additional comfort, additional -- you know, it just --
13 there's -- we can get those audited financial statements,
14 agree to the details to what CalPERS has recorded, and,
15 you know, it's very straightforward. But with the private
16 equity, there's that gap in time. And so -- and with --
17 the beautiful thing is that on the real asset side, right,
18 all the biggest investments that CalPERS has have audited
19 financial statements as of 6/30, so we can get a lot of
20 comfort based on those financial statements that we
21 obtain.

22 COMMITTEE MEMBER PACHECO: But with respect to
23 the private equity then, you don't -- there -- again, it's
24 not -- it's not known. You were mentioning the audit part
25 of it. I'm just -- I was not following that part of it.

1 STEVEN FRANKLIN: I guess what we're say -- we
2 still -- we're sending confirmations out to validate
3 the -- to validate the existence of the investments.

4 COMMITTEE MEMBER PACHECO: Um-hmm.

5 STEVEN FRANKLIN: We're sending -- as of 6/30,
6 we're sending confirmation to validate what the capital
7 balance is. We're reviewing each of those underlying
8 funds since CalPERS capital statements every quarter.

9 COMMITTEE MEMBER PACHECO: Oh, I see.

10 STEVEN FRANKLIN: And so we're looking at those
11 capital statements to make sense that the capital
12 statements make sense, and then really just evaluating the
13 change in fair value, you know, between 6/30 and --
14 between 12/31 and 6/30 to make -- does that fair
15 valuation -- does that value make sense based on what the
16 S&P has done, based on what the, you know, Nasdaq and Dow
17 have done, and overall what -- there's also private equity
18 indexes out there that sort of say how are valuations
19 trending, what do they look like over the last few months.
20 And so we just do some analysis to validate -- just to
21 provide some additional comfort from us for an insurance
22 perspective --

23 COMMITTEE MEMBER PACHECO: Um-hmm.

24 STEVEN FRANKLIN: -- that the values recorded
25 make sense.

1 COMMITTEE MEMBER PACHECO: And these processes
2 are done as some sort of proprietary systems you guys have
3 in order to do this. I'm just trying to understand.

4 STEVEN FRANKLIN: So we tend to use -- we like
5 to -- you know, so we try to do an independent analytics,
6 so what we'll do is we'll get some of the -- some of the
7 metrics and indexes that are -- you know, that are done
8 by -- you know, done by, you know, S&P or Dow Jones and
9 whatever. And then we will input those and do some of
10 that -- some calculations and analysis that we do, based
11 on some assumptions and sort of then do the independent
12 analysis and compare that to what CalPERS has recorded and
13 validate that the numbers make sense.

14 COMMITTEE MEMBER PACHECO: Yes.

15 BILLY KIM: And just to add, we do this for each
16 individual selection that we end up looking at. So we
17 spend a lot of time going through each of these
18 investments, making sure that the valuation change from
19 the 12/31 to 6/30 is appropriate.

20 COMMITTEE MEMBER PACHECO: And these eval --
21 these -- this is basically a sample. You're grabbing a
22 sample.

23 STEVEN FRANKLIN: Yeah.

24 BILL KIM: Yeah.

25 COMMITTEE MEMBER PACHECO: You're doing the

1 entire thing.

2 STEVEN FRANKLIN: But we all -- yes, exactly.
3 But we also want to take a macro view too, right. So we
4 want to look at it from a macro perspective and does that
5 makes sense. So we do it from a macro and then we also
6 like to do it for the samples that we selected.

7 COMMITTEE MEMBER PACHECO: Um-hmm.

8 STEVEN FRANKLIN: And sometimes we will even go
9 back to ask the investment team. So we have a couple
10 questions on some of the changes for some of -- you know,
11 for -- let's say one of the investment funds you invest in
12 one of the private equity firms, we have some questions on
13 the value, could you go back to them and ask them why did
14 this -- why did these companies move, why did they go up
15 or down? And so we have -- we certainly have some
16 follow-up that we ask for the INVO office and they'll go
17 back to the underlying fund manager and then get those
18 analysis and explain to us, and then we document that in
19 our work papers to provide enough evidence for us.

20 COMMITTEE MEMBER PACHECO: Very good then. Thank
21 you. Thank you very much. I really do appreciate that,
22 that thoroughness.

23 STEVEN FRANKLIN: Sure.

24 COMMITTEE MEMBER PACHECO: Thank you.

25 CHAIRPERSON MILLER: Okay. Director Middleton.

1 VICE CHAIRPERSON MIDDLETON: Actually, it's not a
2 question as much as a comment to thank you for your work
3 in past years, and to again applaud the process that you
4 go through in identifying these priorities. And I very
5 much appreciate that you keep it an iterative process, so
6 that you are adjusting during the course of the years as
7 we need to do so. So thank you.

8 BILLY KIM: Thank you. Appreciate it.

9 CHAIRPERSON MILLER: Okay. Thank you and the
10 whole team there as well.

11 And so I have no further questions from -- so I
12 would entertain a motion.

13 VICE CHAIRPERSON MIDDLETON: So moved.

14 CHAIRPERSON MILLER: Middleton.

15 ACTING COMMITTEE MEMBER PAQUIN: Second.

16 CHAIRPERSON MILLER: Ms. Paquin.

17 So I'll call for the questions.

18 All in favor?

19 (Ayes.)

20 CHAIRPERSON MILLER: Any nays?

21 No abstentions.

22 The motion passes. Thank you.

23 And that brings us to Item 5d conflict of
24 interest code amendment.

25 CHIEF COMPLIANCE OFFICER FEIN: Thank you, Mr.

1 Chairman. We are asking for your approval for this
2 change. This is an action item where. We're required to
3 go through a process by California law under the Political
4 Reform Act of reviewing this Conflict of Interest Code on
5 a periodic basis every few years.

6 The last time this was done was October of 2015.
7 We have now completed a review over the last six to nine
8 months. It's a process we also work with the FPPC on and
9 so we are bringing these changes to you. And this
10 revision that we're suggesting brings us in conformance
11 with the methodology to include specialist classifications
12 who make and create governmental decisions.

13 I will tell you some of these stem from CalHR
14 changes to classifications, et cetera. Some are new
15 classifications that are new to CalPERS for the first
16 time, and a third class is where we've done some analysis
17 under the requirements of the Political Reform Act and
18 have decided there are certain people who do qualify that
19 were not previously covered.

20 I will tell you that out of our current -- a
21 little about 1,100 Form 700 filers out of the 2,600 to
22 2,800 team members here at CalPERS. This will only add
23 117 more, so it's a pretty minor modification. Of those,
24 81 will come out of the Information Technology Services
25 Branch, 31 from the Actuarial Office, and five from the

1 Finance Office.

2 So we are recommending approval. If approved, we
3 will then go through the process of submitting through the
4 Office of the Administrative Law, and assuming no comments
5 would then be able to go straight through after the
6 comment period. If there are comments, obviously, we
7 would bring it back for a second reading. With that, that
8 concludes my remarks and I'm happy to answer any
9 questions.

10 CHAIRPERSON MILLER: Okay. I'm not seeing any
11 questions from the Committee, so I'll entertain a motion.

12 COMMITTEE MEMBER PACHECO: (Hand raised).

13 CHAIRPERSON MILLER: A motion from Director
14 Pacheco.

15 Second?

16 VICE CHAIRPERSON MIDDLETON: (Hand raised).

17 CHAIRPERSON MILLER: Oh, second from Director
18 Middleton. So I'll call for the question.

19 All in favor?

20 (Ayes.)

21 CHAIRPERSON MILLER: Any nays?

22 No abstentions.

23 The motion carries. Thank you.

24 We'll now move on to information Agenda Item 6a,
25 the annual compliance report.

1 CHIEF COMPLIANCE OFFICER FEIN: Thank you, Mr.
2 Chairman. As it says in the name, this is the annual
3 report produced by the Compliance and Risk Management
4 Division. You will see at the beginning of the report we
5 go through some extensive discussions about a lot of the
6 work that the Compliance and Risk Division did this year,
7 not only its normal routine work, but the project work,
8 the new workstreams, the transition to technology of
9 existing manual systems.

10 I will point out a few things, but in the
11 interests of time will not go through an exorbitant
12 amount. As to our Form 700 reviewer, we've talked about
13 that several times over the last year, year and a half. I
14 think you will recall that we did a second full 100
15 percent review of every Form 700 filed on behalf of
16 CalPERS team member or consultant and I am pleased to say
17 that it showed some pretty significant improvement from
18 the first time that was done in 2021.

19 So the number of amendments requested by that
20 review fell by 27 percent when comparing 2020 to 2021.
21 The actual number of amendments submitted and it's -- if
22 you recall when we request an amendment be made, sometimes
23 an individual may have one, two, three, or four. So there
24 were requests two individuals to amend fell by 27 percent.
25 The actual number of amendments submitted fell by over 42

1 percent. So I think between the reviews, the
2 conversations that is allowing us to have with team
3 members. If you recall, last year, we also did a first
4 process where team leaders were reviewing the Form 700s of
5 their direct reports. That process is going off again
6 this year. And in addition, the enhanced onboarding that
7 I've spoken about a few times where we're being much more
8 granular in particular trying to find areas that could
9 lead to conflicts of interest. All of that is raising the
10 awareness and the understanding, which I think is
11 beginning to show some results and I'm quite happy about
12 that.

13 I'd also like to point out on page six of the
14 report, under Investment, Compliance, Oversight, and
15 Monitoring, there's some very critical bullets there. We
16 did some project work at the end of last calendar year and
17 into the first calendar quarter this year with the
18 investment office in particular, with Amy Deming and her
19 ICOR team that has really advanced CalPERS down the road
20 in being able to, in a more detailed fashion, identify
21 what its requirements are, assess how its controls are
22 working, and have a confidence that, you know, the level
23 of risk and compliance are where we report that they are.

24 Other than that, the rest of the report, as is
25 usual in most years, also contains highlights of selected

1 compliance and risk work and accomplishments in all of the
2 other branches throughout the enterprise.

3 And with that, that concludes my report. I'm
4 happy to take any questions.

5 CHAIRPERSON MILLER: Yeah. Thank you for the
6 report. And great appreciation for you and the work of
7 the entire team, and very encouraging, and it's really
8 nice to see concrete evidence of progress and continuing
9 improvement. Very good.

10 CHIEF COMPLIANCE OFFICER FEIN: Thank you, Mr.
11 Chair.

12 CHAIRPERSON MILLER: I don't see any requests or
13 questions from the Committee, so I guess that brings us to
14 the summary of Committee direction.

15 CHIEF COMPLIANCE OFFICER FEIN: I noted no
16 directions, Mr. Chair.

17 CHAIRPERSON MILLER: Okay. Do we have any public
18 commenters queued up?

19 BOARD CLERK ANDERSON: (Shakes Head).

20 CHAIRPERSON MILLER: No, I have no public
21 comment.

22 So this brings us now to Agenda Item 7, the
23 approval to meet in closed session pursuant to Government
24 Code section 11126 subsection (c)(18)(A). So before we
25 adjourn into closed session, this Risk and Audit Committee

1 needs to approve meeting in closed session for the
2 information security update and cybersecurity security
3 briefing. The Bagley-Keene Open Meeting Act requires at
4 least two-thirds of the Committee members present to vote
5 approval in order to hold a closed session to consider
6 matters posing a potential threat or criminal activity
7 against CalPERS property or equipment, including
8 electronic data, and where disclosure would compromise
9 CalPERS security. Based on consultation with our Legal
10 Office, discussion concerning CalPERS information security
11 and cybersecurity qualifies for this closed session
12 exception. After the closed session, the Committee will
13 briefly report out in open session that we met under this
14 exception and if any action was taken.

15 What's the pleasure of the committee? I'm
16 looking for a motion and a second to meeting in closed
17 session.

18 COMMITTEE MEMBER PACHECO: (Hand raised).

19 VICE CHAIRPERSON MIDDLETON: Second.

20 CHAIRPERSON MILLER: Okay. We've got it moved
21 and seconded. I'll call for the question.

22 All in favor?

23 (Ayes).

24 CHAIRPERSON MILLER: Any nays?

25 No abstentions.

1 The motion passes. So thank you.

2 With that, we'll now adjourn into closed, but
3 we're going to take a lunch break and then do our closed
4 session for Items 1 to 4 from the closed session agenda.
5 So this will include the information security. So -- and
6 after the closed session, then the Board will reconvene in
7 open session. And then after that, we'll also then after
8 the Risk and Audit Committee comes back reports out in
9 open session, then we'll also be having the public -- the
10 Pension and Health Benefits will also be coming back to do
11 their open session this afternoon. So I don't have a time
12 certain. It will be after the close of the closed
13 sessions, we'll reconvene those open sessions.

14 So I hope everyone has A nice lunch break and
15 we'll see you back after the closed sessions this
16 afternoon.

17 VICE CHAIRPERSON MIDDLETON: Closed session
18 begins at what time?

19 CHAIRPERSON MILLER: It will -- say we'll begin
20 at 1. Yeah 1 o'clock we'll reconvene our -- into closed.

21 Thank you, all. I guess I'll bang the gavel.

22 (Off record: 12:16 p.m.)

23 (Thereupon a lunch break was taken).

24 (Thereupon the meeting recessed
25 into closed session.)

1 (Thereupon the meeting reconvened
2 open session.)

3 (On record: 3:17 p.m.)

4 CHAIRPERSON MILLER: Okay. I'd like to welcome
5 every everybody back to open session. Staff, are we ready
6 over there? Is everything -- are we good to go? Okay.
7 We'll good to go.

8 Okay. Welcome back to open session. The Risk
9 and Audit Committee met in closed session today pursuant
10 to Government Code section 11126 subdivision (c)(18)(A).
11 During the closed session, the Committee received an
12 informational security update and cybersecurity briefing
13 from its Chief Information Security Officer and program
14 staff. The Committee was informed about a recent
15 cybersecurity breach at a third-party provider we use
16 called PBI Research Services Berwyn Group, PBI, involving
17 the MOVEit transfer application. PBI provides services to
18 CalPERS to confirm member deaths. This ensures that
19 proper payments are made to retirees and beneficiaries,
20 and prevents instances of overpayments or other errors.
21 The breach includes personal information of approximately
22 769,000 retirees and beneficiaries.

23 CalPERS is notifying impacted members by mail
24 starting tomorrow and they are being offered free credit
25 monitoring and identity theft protection services for two

1 years, as well as information on how to take additional
2 steps to protect their information. CalPERS is also
3 publicly announcing the breach through a new release and
4 providing information on our website and through a
5 dedicated call center. Our team is in the process of
6 briefing leaders of our retiree associations as we speak.

7 It's important to note that the breach did not
8 impact CalPERS information systems or our member benefits
9 website, myCalPERS. CalPERS has taken several immediate
10 actions to ensure that its members' benefits are secure.
11 This includes new protocols on myCalPERS as well as
12 additional safeguards for members who contact our member
13 call center and visit a CalPERS regional office. The
14 Committee took no action.

15 This adjourns this month's Risk and Audit
16 Committee meeting and the Pension and Health Benefits
17 Committee open session will begin at 3:30.

18 Thank you.

19 (Thereupon the California Public Employees'
20 Retirement System, Board of Administration,
21 Risk & Audit Committee open session
22 meeting adjourned at 3:20 p.m.)
23
24
25

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 June, 2023.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063