



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*

To the Board of Administration
California Public Employees' Retirement System
Sacramento, CA

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of fiduciary activities and the proprietary activities of the California Public Employees' Retirement System ("the System"), a component unit of the State of California, as of and for the year ended June 30, 2023, and the related notes to the financial statements, and have issued our report thereon dated November 17, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control we consider to be a material weakness related to the estimated settlement liability recorded for the Long Term Care Fund described below.

Finding: Generally accepted accounting principles require changes in estimates of claim costs to be recognized in the period those estimates are changed. In the draft financial statements, management's estimated long-term settlement liability balance was correct and supported, however the offsetting impact to other accounts as a result of changes were not. The related control did not properly consider all information when assessing the appropriateness of the accounting conclusion, requiring a correcting journal entry.



System's response: Management agrees with the observation and the entry to record the reduction in future benefits was included in the final financial statements. The timing of this transaction and the uncertainty in the legal outcomes created communication challenges that were not translated to the financial statements prior to audit review. To enhance internal controls going forward, management will review any entries considered unusual to make sure all related information was considered within the transaction. If transactions are identified, management will assess for proper classification and appropriately include the transactions in the year-end financial statements in accordance with accounting principles generally accepted in the United States of America.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its 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. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

System's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the System's response to the findings identified in our audit as previously described. The System's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Francisco, CA
November 17, 2023