

Summary of Financial Statement Audit Management Letter Comments
Current Year Report
As of September 30, 2020

Audit Management Letter Comments for the Year Ended 06/30/20

Fiscal Year 2019-20

Observation #1: Review of Financial Statement Classifications

BDO observed that a portion of the Government issued Treasury Bills that had short term maturities were inappropriately recorded in Global Debt Securities instead of Short-Term Investments. Also, BDO observed that a non-employer contribution made was classified inappropriately as an employer contribution. Although these classification errors were not material either quantitatively or qualitatively, both reclassifications were proposed by BDO and corrected by management. The errors appear to be as a result of a lack of internal control in place to review all financial statement categories for proper classification for financial reporting purposes. These errors and the subsequent corrections had no impact on total investments or total additions but only a change within the correct financial statement line item.

In order to record correct classification of each type of financial statement category, CalPERS management should implement a control during year end to review all financial statement categories to assess whether reclassifications are necessary including for investments and additions to ensure each financial statement area is properly classified.

Financial Office's Current Update: OPEN. In continuing efforts to transition all brokers to new service, with the goal of consistency in communicating trades to State Street Bank (SSB), Financial Reporting and Accounting Services Division's management has migrated 13 additional brokers into CTM. On the financial reporting side, additional checks will be utilized to confirm correct classifications of investment types, with emphasis on Treasury Bills. The checks will refer to a combination of information received from SSB, along with Bloomberg data.

With respect to the misclassified employer contribution, we have added an additional item to our checklist for year end, entailing a discussion with our pension accounting group about contributions. We will implement by September 2021.