

Summary of Financial Statement Audit Management Letter
Comments Current Year Report
As of September 30, 2023

Audit Management Letter Comments for the Year Ended 06/30/23

Fiscal Year 2022-23

Observation #1: Automated Real Estate Investment System (AREIS) Database Administrator Access

BDO observed that seven developers of the Automated Real Estate Investment System (AREIS) have security administrative access to the database of AREIS. The database administrative access role provides users with the ability to deploy changes directly to the system without oversight.

We observed the users with database security administrative access have full access (read, write, and edit) to the database. This results in a segregation of duties conflict because it provides the individual with the potential ability to modify the report logic within the database without approval. Although CalPERS has segregated developers and deployers on the application level, having full access to the database can bypass the system functionality, which results in a segregation of duties conflict. Additionally, no audit is being performed of the system change log nor database log-in access report to check for and investigate anomalies.

Management has removed the developer group from the database. To strengthen the change management control environment, it is recommended that the change logs be reviewed on regular basis for appropriateness by an individual who does not have deploy access nor database rights to AREIS.

About Financial Reporting & Accounting Services Division (FRAS) Current Update: RESOLVED. Pending review by the financial statement auditor. To enhance internal controls going forward, changes logs will be reviewed on a systematic basis for appropriate access control.

Observation #2: Long-Term Care Settlement Liability

Each year the System estimates the amount of liabilities associated with the long-term Care Fund future liabilities. Recently, there was a class action lawsuit settlement that impacted the probability, timing, and nature of those future liabilities. 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.

BDO determined this error resulted from a material weakness in internal controls over financial reporting, specifically, the control surrounding reviewing the appropriate accounting and presentation of estimates related to the estimated settlement liability for the Long-Term Care

Fund. The initial entry was recorded without properly considering all current information including details the settlement will have on future plan participation.

The error had a material effect on the financial statements of the Long-Term Care Fund and overstated the long-term future policy benefits liability and related expenses. The adjustment to correct the impact was proposed by BDO and corrected by management.

We recommend management implement a control for significant and unusual transactions where management ensures they obtain and consider all related information when assessing the appropriateness of accounting conclusions.

About Financial Reporting & Accounting Services Division (FRAS) Current Update:

RESOLVED. Pending review by the financial statement auditor. To enhance internal controls going forward, FRAS will review any entries considered unusual to make sure all related information was considered within the transaction. If transactions are identified, FRAS 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.