



Agenda Item 7a

November 14, 2012

ITEM NAME: Draft Audited Basic Financial Statements and Compliance Report

PROGRAM: Financial Office

ITEM TYPE: Information

EXECUTIVE SUMMARY

Staff have completed the 2011-12 Draft Basic Financial Statements and the 2011-12 Annual Compliance Report (ACR), and will be providing brief presentations. Both the Financial Statements and the ACR will be included in the 2011-12 CalPERS Comprehensive Annual Financial Report (CAFR). The financial statements have been reviewed by the Acting Chief Financial Officer, the DEO of Benefit Programs Policy and Planning, the DEO of External Affairs, the Chief Investment Officer, the Chief Operating Investment Officer, the DEO of Customer Services and Support, the Chief Actuary, the General Counsel, and the Chief Officer for Risk, Compliance and Ethics. The Chief Executive Officer will review the final financial statements prior to them being presented for approval at the December 2012 Risk & Audit Committee meeting.

STRATEGIC PLAN

The information presented in this item is not in direct support of the 2012-2017 Strategic Plan but is required by Government Code.

BACKGROUND

Management is responsible for accurate preparation of the financial statements in accordance with generally accepted accounting principles. Pursuant to Section 20228 of the Government Code, the Board of Administration's independent financial statement auditor, Macias, Gini, & O'Connell LLP, completed its audit of CalPERS basic financial statements as of and for the fiscal year ended June 30, 2012. The role of the independent auditor is to express an opinion on the financial statements based on their audit. The Office of Audit Services manages the independent auditor contract and facilitates the audit process. A draft copy of the basic financial statements is attached to this agenda item as Attachment 1.

Pursuant to the Governance Policy shared with the Board Governance Committee in December of 2011, new roles and powers were established for the Board of Administration and its committees. Included as a "power reserved" for the new Risk and Audit Committee (RAC) is the power to "approve, as required, and oversee actuarial, external, financial, internal, and real estate audits and reinsurance." Thus, the responsibility for the approval of the draft audited basic financial statements transitioned from what was previously the "Finance Committee" to RAC.

The Enterprise Compliance Division (ECOM) is responsible for the preparation of the ACR. The report highlights the regulatory compliance activities and achievements of the enterprise-wide program areas and business lines. Previously reported every calendar year, the reporting period will be changed to a fiscal year to allow the ACR to be published with the CAFR. Since the last report was for the 2010 calendar year, the current ACR will be for the period January 1, 2011 to June 30, 2012. To enhance transparency, visibility and accessibility to the information provided in the ACR, ECOM collaborated with the Fiscal Services Division and the External Affairs Branch to ensure the ACR would be included as a section of the 2011-12 CAFR.

ANALYSIS

As the audited basic financial statements must be approved by the Risk and Audit Committee, this item is being presented as an informational item. Fiscal Services Division will provide the Finance and Administrative Committee a brief presentation of highlights of the basic financial statements for FY 2011-12.

ECOM presented the last ACR in February 2011 and was based on the historical calendar year approach addressing the twelve months ending December 2010. As a result, the ACR in the 2011-12 CAFR will include eighteen months of activity, from January 2011 to June 2012. A copy of the 2011-12 ACR is included as Attachment 2 in this agenda item. After this report, all future annual reports will only include twelve months of activity.

ATTACHMENTS

Attachment 1- 2011-12 Draft Audited Basic Financial Statements
Attachment 2- 2011-12 Annual Compliance Report

DAVE CORNEJO, Acting Division Chief
Fiscal Services Division

KATHLEEN WEBB, Chief
Office of Enterprise Risk Management

RUSSELL G. FONG
Acting Chief Financial Officer