

Prior Year Macias Gini & O'Connell
Summary of Financial Statement Audit Management Letter Comments
As Of June 30, 2013

Audit (Report Issue Date): Report to Management for the Year Ended 06/30/11 (12/2/11)

Observation 1:	Completeness and Accuracy of Investment Related Disclosures
Division responsible:	Fiscal Services Division

Observation: The Fiscal Services Division lacks a formal process to validate investment disclosure data provided by the custodian bank to the related amounts reported in the general ledger and other supporting documentation, which increases the risk of errors in the financial statement disclosures.

We noted the following errors during our audit of the GASB Statement No. 40 investment risk disclosures:

1. The draft credit risk disclosure reflected that certain debt securities totaling approximately \$1.9 billion were not rated. We verified using an independent source that the security was in fact rated with an AAA credit rating. The data feed provided by the custodian bank incorrectly characterized the security as having no credit rating, and the Financial Reporting Unit did not independently validate the data. The disclosure was subsequently revised to reflect the AAA credit rating.
2. The draft foreign currency risk disclosure misclassified international real estate investment trust securities (REITS) as equity securities. The custodian bank classifies REITS as equity investments. The Fiscal Services Division manually reclassified the REITS to real estate investments in the statement of fiduciary net assets, but failed to reclassify the REITS in the foreign currency risk disclosure. The disclosure was subsequently revised to accurately reflect the international REITS as real estate investments.

In addition, we observed the following during our audit of the GASB Statement No. 53 derivative disclosures:

1. The GASB Statement No. 53 workbook provided by the custodian bank did not contain maturity dates for individual derivative instruments subject to interest rate risk. Instead, the custodian provided the maturity dates in a summary schedule. The Fiscal Services Division prepared the note disclosures based on the summary data and did not reconcile the detailed schedule by individual derivative instruments to the disclosure summary schedule. In addition, the Fiscal Services Division did not validate the maturities of individual derivative instruments which increases the risk of errors in the disclosure.
2. The draft schedule of derivative instruments reflected notional dollar amounts for certain derivatives for which the underlying notional amount should have been in shares. The Fiscal Services division did not validate the data reported by the custodian bank which led to errors in

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the disclosure, which were corrected in the audited financial statements.

3. The written GASB Statement No. 53 review and validation process was not updated from the prior year and does not include instructions for the preparation and review of each table comprising the GASB 53 disclosures.

We recommend that the Fiscal Services Division reevaluate and refine current processes to ensure that investment disclosure data provided by the custodian bank is complete and accurate, which should include validating data on a sample basis using third-party vendor sources or obtaining supporting evidence from the custodian bank to validate the data.

Current Status: OPEN. Refer to Agenda Item 5f-Attachment 2A - Significant Deficiency 2012-1.

Observation 2:	Reconciliation of Benefit Payments
Division responsible:	Fiscal Services Division

Observation: In fiscal year 2011, benefit payment reconciliations were not performed in a timely manner. The Retirement Information Benefit System (RIBS) is used to calculate retiree pension benefits and release warrants for payment. The Fiscal Services Division performs the benefit payment reconciliation by comparing the activity reflected in RIBS to the activity reported in the general ledger. The reconciliation is generally performed on a semi-annual basis; however, for fiscal year 2011 staff performed only one reconciliation, which was completed more than three months after the fiscal year end.

We recommend that the Fiscal Services Division perform periodic and timely reconciliations of benefit payment activity to ensure that amounts recorded in the general ledger are complete and accurate.

Current Status: OPEN. Fiscal Services is performing timely benefit payment reconciliations to ensure the amounts recorded in the general ledger are complete and accurate.