

Prior Year Macias Gini & O'Connell
Summary of Financial Statement Audit Management Letter Comments
As of March 31, 2014

Audit (Report Issue Date): Report to Management for the Year Ended 06/30/12 (2/12/13)

Significant Deficiency 2012-1: Completeness and Accuracy of Investment Related Disclosures

Division responsible: Fiscal Services Division

Observation: The issue was reported as Observation #1 in 2011 and now has been elevated as a significant deficiency. The auditors found the GASB 40 disclosures failed to report securities subject to investment risk disclosures. They also found the GASB 53 derivative disclosures errors included: the incorrect fair value of derivative instruments, notional dollars reported as notional units, and notional units reported as notional dollars. The GASB 40 and GASB 53 disclosures should be validated for completeness and accuracy, and reviewed by personnel with knowledge of complex accounting standards and comprehension of the System's investment structure and transactions.

Current Status: OPEN. Refer to Agenda Item 4d - Attachment 2A – Material Weakness 2013-1.

Significant Deficiency 2012-2: Account Analysis and Financial Reporting

Division responsible: Fiscal Services Division

Observation: Fiscal Services provided comparative trial balances and the analysis of unusual changes in account balances for all funds, but the auditors found several general ledger items were not properly analyzed and contained improper posting of transactions, and the Management's Discussion & Analysis described the dollar amount and percentage changes between current year and prior year but did not provide the reason for the change.

Current Status: OPEN. We continue to perform monthly analysis, and develop our Financial Reporting Unit to better monitor and analyze accounting transactions. We are holding biweekly management meetings at the top level of all accounting units to ensure information and knowledge are shared.

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Significant Deficiency 2012-3: Implementation of my|CalPERS

Division responsible: Customer Services and Support
Information Technology Services Branch
Office of Audit Services

Customer Services and Support

Observations:

- 1) Manual overrides are performed in all elements of the system. Staff relies on the legacy systems and manual spreadsheets to perform calculations and override benefit amounts.
- 2) System access procedures should be developed to review user accounts and their associated roles to ensure they are current and enforce proper segregation of duties.

Current Status:

- 1) OPEN. Each unit within the Benefit Services Division is developing and documenting enhanced manual override procedures. We will also prioritize related my|CalPERS changes such as the secondary approver and all manual overrides by December 31, 2014.
- 2) OPEN. Customer Services and Support will continue to refine the user access project with Phase 2 and will implement the project in 2014.

Information Technology Services Branch

Observation: The data query and reporting knowledge has not been adequately transferred from consultants to CalPERS staff to query data and reports from the my|CalPERS system.

Current Status: RESOLVED.

Office of Audit Services

Observation: While the vast majority of transactions are processing correctly in my|CalPERS, there are some errors in benefit payment processing of health benefit deductions, death benefits and employer reporting. The impact of the errors on the financial information has not been quantified.

Current Status: OPEN. Audit Services completed its review of death benefits and did not find continued uncorrected errors caused by my|CalPERS processing. Audit Services initiated a review of employer reporting in the fourth quarter of fiscal year 2012-13, included a review of health deductions in the 2013-14 audit plan, and sufficient health data will be available to conduct a review by late spring and Audit Services will address this area by June 30, 2014.

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Observation 1:	Investment Classifications
Division responsible:	Fiscal Services Division
<p>Observation: Fiscal Services was inconsistent in reporting the unitized investments and underlying securities between the PERF and affiliate funds.</p> <p>Current Status: RESOLVED.</p>	
Observation 2:	Investment Commitment Disclosures
Division responsible:	Investment Office
<p>Observation: Fiscal Services had errors in the investment commitment disclosures: an original corporate governance commitment amount was reduced during the year but was not reflected in the worksheet; certain foreign investment commitments were not converted from Euros to dollar amounts; and one year real estate contracts that end on June 30 had the unfunded commitment added to the investment disclosure worksheet.</p> <p>Current Status: OPEN. The Investment Office will work to implement new control functions for the next year-end close activities beginning July 1, 2014. The Investment Office will enhance processes by implementing the following steps:</p> <ul style="list-style-type: none">• Implement a new enhancement in AREIS to reduce the possibility of a partner incorrectly recording non recallable distributions that impact the unfunded commitment in AREIS.• Investment office staff will adjust the commitment amounts in AREIS to remove any discretionary infrastructure commitments and track outside of the ARIES unfunded commitment reporting. <p>We anticipate the new control processes to be implemented and in place for the upcoming fiscal year-end close activities, which will conclude in October 2014.</p>	
Observation 3:	Internal Controls Over Benefit Processing
Division responsible:	Customer Services and Support
<p>Observation: The auditors found errors in retirement benefit amounts primarily from the implementation of my CalPERS, and a need to re-evaluate policies and procedures.</p> <p>Current Status: RESOLVED.</p>	

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Observation 4: Self-Funded Healthcare Enrollment Reconciliation
Division responsible: Customer Services and Support

Observation: The Anthem Blue Cross monthly enrollment reconciliations were not completed timely. As a result, discrepancies were not investigated and resolved prior to the next billing cycle. During fiscal year 2012/2013, enrollment reconciliation procedures were established; however, we noted the procedures did not specify the required timeframe to complete the monthly enrollment reconciliation. We recommend that the timeline to complete the monthly reconciliation be incorporated in the procedures.

Current Status: RESOLVED. Pending final verification by Macias, Gini & O’Connell.

Observation 5: Access to Programs and Data
Division responsible: Information Security Office

Observation: Information Security Office did not test or develop periodic tests of Guardium SQL device to ensure it properly monitors database activity.

Current Status: RESOLVED.

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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: RESOLVED.