

Prior Year Macias Gini & O'Connell
Summary of Financial Statement Audit Management Letter Comments
As of September 30, 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:	Financial Reporting and Accounting Services
<p>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.</p> <p>Current Status: RESOLVED. Pending final verification by Macias Gini & O'Connell. Refer to Agenda Item 4d - Attachment 2 – Material Weakness 2013-1.</p>	
Significant Deficiency 2012-2:	Account Analysis and Financial Reporting
Division responsible:	Financial Reporting and Accounting Services
<p>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.</p> <p>Current Status: RESOLVED. Pending final verification by Macias Gini & O'Connell. Financial Reporting and Accounting Services continues to:</p> <ul style="list-style-type: none">• Perform analysis and staff development to strengthen analytics and monitoring.• Hold meetings with key staff in all accounting units to ensure knowledge is shared.• Evaluate new transactions and products to ensure the proper disclosure and accounting.• Automate the CAFR process to allow more analysis and reduce clerical work.	

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Significant Deficiency 2012-3: Implementation of my CalPERS	
Division responsible:	Customer Services and Support Office of Audit Services
<u>Customer Services and Support</u>	
Observations:	
<ol style="list-style-type: none"> 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: RESOLVED. Pending final verification by Macias Gini & O'Connell. Internal controls around the manual override process have been strengthened. Procedures have been drafted, finalized and implemented to ensure proper segregation of duties. In addition, procedures have been developed for the periodic review of my CalPERS user accounts and their authorization roles to ensure proper user access is in place.	
<u>Office of Audit Services</u>	
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: RESOLVED. Pending final verification by Macias Gini & O'Connell. The Office of Audit Services completed reviews of employer payroll reporting, employer contribution reporting and death benefits processing. The reviews did not find continued uncorrected errors caused by my CalPERS processing.	
Observation 2:	Investment Commitment Disclosures
Division responsible:	Investment Office
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.	
Current Status: RESOLVED. Pending final verification by Macias Gini & O'Connell. The proposed Automated Real Estate Investment System control functions are in place and will be in effect when preparing the June 30, 2014 unfunded reporting.	

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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. The enrollment reconciliation is completed.