

April 19, 2016**Item Name:** Review of Independent Auditor's Management Letter**Program:** Audit Services**Item Type:** Action**Recommendation**

Approve the Draft Management Letter as prepared by Macias Gini & O'Connell LLP for the year ended June 30, 2015.

Executive Summary

The Draft Management Letter, prepared by the Board's independent financial statement auditor, Macias Gini & O'Connell LLP (MGO), includes observations and recommendations related to strengthening internal controls over financial reporting based on the audit of the June 30, 2015 financial statements. Importantly, no material weaknesses or significant deficiencies in internal controls over financial reporting were noted as a result of the audit. Management's concurrence, response, and proposed corrective actions to the observations and recommendations are included in the Draft Management Letter. In addition, the Draft Management Letter contains the status of prior year recommendations. Management has appropriately resolved a majority of prior year observations.

Strategic Plan

This item is not a specific product of the Strategic Plan.

Background

MGO completed its audit of CalPERS' Financial Statements for the fiscal year ended June 30, 2015 as required by Government Code Section 20228. The Board approved the basic financial statements and accepted the independent auditor's report on November 17, 2015. In connection with the audit of the financial statements, MGO prepared a Draft Management Letter that includes observations and recommendations to enhance internal controls over financial reporting (Attachment 1). The Draft Management Letter also includes updated status on prior year observations.

The Management Letter is considered a draft until it is approved by the Board and subsequently signed by MGO. The signed Management Letter will be distributed to the Board, executive staff and senior management.

Analysis

Consistent with the Risk and Audit Committee's Audit Resolution Policy, the status of the Management Letter observations will be reported to the Risk and Audit Committee until management has satisfactorily resolved each noted observation and MGO concurs that corrective action has been implemented.

The tables below summarize the comments and corresponding pages in the Draft Management Letter. It should be noted that management has appropriately resolved a majority of prior year observations. The one remaining prior year observation is expected to be completed in Fiscal Year 2015-16.

Table 1 – Current Year Observations and Recommendations

Issue Number	Description	Page Number
Observation 1	Investment Valuation – Process related to reconciliation and determination of fair value of real asset investments	3-5
Observation 2	Investment Commitment Disclosures – Unfunded commitments	5-7
Observation 3	My CalPERS Functionality – Data integrity	7

Table 2 – Status of Prior Year Comments and Recommendations

Fiscal Year	Issue Number	Description	Status	Page Number
2014	Observation 1	Investment Valuation - Process related to accounting and reporting of estimated investment fair values	Resolved	8-10
2014	Observation 2	Actuarial Discount Rate Determination - Inconsistent with new accounting standards	Resolved	11-12
2014	Observation 3	Member Census Data - Discrepancies between the Actuarial Valuation System, my CalPERS, and employer records	In Progress	12-14
2013	Observation 2	Member Census Data - Formal process for communicating corrections	Resolved	14-15
2012	Observation 2	Investment Commitment Disclosures - Proper reporting	Resolved*	15-19

* Observation 2 is resolved; however, there are current findings in the same category. Please refer to current year Observation 2 under Table 1.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The primary benefit of approving the Draft Management Letter is to assist CalPERS in meeting its fiduciary responsibilities to plan participants by ensuring effectiveness of controls over financial reporting designed to prevent, or timely detect, errors that could result in material misstatements in the financial statements. The risk of not implementing recommendations is limiting the timely detection, prevention or correction of material misstatements in the financial statements.

Attachment

Attachment 1 – Draft Management Letter (including CalPERS management’s responses), prepared by MGO for the Fiscal Year ended June 30, 2015.

BELIZ CHAPPUIE, Chief
Office of Audit Services

MATTHEW G. JACOBS
General Counsel