

Macias Gini & O'Connell
Summary of Financial Statement Audit Management Letter Comments
Current Year Report
As of June 30, 2016

Audit (Report Issue Date): Report to Management for the Year Ended 06/30/15 (2/17/16)

Observation #1: Investment Valuation

Divisions responsible: Financial Office/Investment Office

Current processes and procedures related to reconciliations and the determination of fair value of certain investment transactions for accounting and financial reporting purposes should be re-evaluated. Macias Gini & O'Connell (MGO) noted:

- a. The Investment Portfolio Analytics (IPA) Unit does not have a formal process to ensure that the unreconciled investments are addressed and resolutions are documented. In addition, the IPA unit utilizes a third-party consultant, Altus, to compile the results of the appraisals for comparison to the partnerships' financial statements. MGO noted that Altus erroneously entered the appraised value for one of the selected properties in Australian Dollars as opposed to U.S. Dollars. The IPA unit compared the appraised value in Australian Dollars to the value reported in the partnership's financial statements presented in U.S. Dollars as the investment in question was not part of the IPA Unit's verification selections.
- b. CalPERS holds certain securities that cannot be priced by the custodian bank primarily due to unique private investment structures and stale pricing. MGO noted that there were investments with stale pricing dating from 2011 and one investment which was last priced in 1970. INVO currently has stale price procedures, and the established procedures are operating as designed. However, INVO should establish procedures with specific guidelines pertaining to the write off of securities that have not been priced for a prolonged period of time. In addition, INVO should reevaluate and revise the established guidelines on an annual basis, as appropriate to ensure proper reporting of fair value as of CalPERS' fiscal year end.
- c. CalPERS reports private equity investment fair values based on the partnerships' March 31st financial information adjusted for cash flow activities from April through June. Certain private equity partnerships are publically traded, and CalPERS values these investments based on the number of shares owned and pricing available as of March 31st. Public company investments should be valued based on the shares and pricing data as of June 30th for financial reporting purposes as that information is available during the financial statement closing process.

Financial Office and Investment Office's Current Update: OPEN.

- a. IPA and the Pricing and Valuation Committee are currently updating the valuation procedures to reflect the change in the non-controlling interest partnership. IPA has also reached out to Altus to ensure proper control procedures for appraisal data entry are being followed. IPA is on target to complete these procedures by October 31, 2016.
- b. The policy and procedures has been reviewed related to stale pricing. We ensured that prices are evaluated on a regular basis and the prices have been updated per current procedure. We also verified prices reflect fair value at fiscal year-end. We are currently evaluating our procedures related to write off of securities, specifically with accounting to custodian banks.

Audit (Report Issue Date): Report to Management for the Year Ended 06/30/15 (2/17/16)

- c. The Financial Office has developed a methodology that will be used this year to move the Public Private Equity stock into global equity on the CAFR. The procedures will be documented by October 31, 2016.

Observation #2: Investment Commitment Disclosures
Division responsible: Financial Office

Total and unfunded commitments related to investments in limited partnership structures are disclosed in CalPERS' basic financial statements. MGO noted:

- a. The draft note disclosure real asset and private equity partnerships did not have any outstanding unfunded commitment balances.
- b. The draft note disclosure for private equity partnerships included total commitments for private equity partnerships that became publically traded.
- c. For real asset investments, information generated from the Automated Real Estate Information System for the total and unfunded commitment disclosure contained errors.
- d. For private equity investments, information provided by the Private Edge Group for the total and unfunded commitment disclosure contained errors.

Financial Office's Current Update: OPEN. Financial Office has developed an accounting treatment memo documenting the financial reporting for unfunded commitments. This includes the GASB 72 changes that will be implemented within the 2015-16 Fiscal Year. We will finalize procedures by October 31, 2016.

Observation #3: my|CalPERS Functionality
Division responsible: Customer Services and Support Branch

Some CalPERS employers with active members (also known as Active Appointments) did not report any active member payroll during the fiscal year. One of the reasons was due to employers ending their contract with CalPERS or rolling into another division organization ID number; however, the employer did not separate the underlying active members. There were also instances in which employers exist in my|CalPERS multiple times and have more than one my|CalPERS ID number. The resolution of this observation requires a coordinated effort between the various divisions within CalPERS in conjunction with working with the affected employers. CalPERS should establish a plan to address these issues in order to increase data integrity within my|CalPERS.

Customer Services and Support Branch's Current Update: OPEN. Management concurs with the recommendation. As part of the my|CalPERS Functional Optimization project, we will be creating reports for employers that identify the data issues, specifically the appointment data for them to correct. The target date for implementation is December 31, 2016.