
November 15, 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 fiscal year ended June 30, 2016.

Executive Summary

The Draft Management Letter, prepared by the CalPERS Board of Administration's (Board) 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, 2016 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. The Government Code section 20228 requires the Board to annually employ a certified public accountant to audit the financial statements.

Background

MGO completed its audit of CalPERS Basic Financial Statements for the fiscal year ended June 30, 2016 as required by Government Code section 20228. 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 Office of Audit Services 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 2016-17.

Table 1 – Current Year Observations

Issue Number	Description
Observation 1	Accounting and Reporting for Internal Pooled Investments – Manual accounting and recording for unitized investments
Observation 2	Replacement Benefit Fund Account Reconciliation – Discrepancies between the general ledger and my CalPERS
Observation 3	Long-Term Care Fund Annual Actuarial Valuation – Untimely delivery of member census data delaying the preparation of the annual actuarial valuation report

Table 2 – Status of Prior Year Observations

Fiscal Year	Issue Number	Description	Status
2015	Observation 1	Investment Valuation – Process related to reconciliation and determination of fair value of real asset investments	Resolved
2015	Observation 2	Investment Commitment Disclosures – Unfunded commitments	Resolved
2015	Observation 3	My CalPERS Functionality – Data integrity	In Progress

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, 2016.

BELIZ CHAPPUIE

Chief Auditor
Office of Audit Services

MATTHEW G. JACOBS

General Counsel