

California Public
Employees' Retirement
System

Fiscal Year 2016 – 2017 Audit Service Plan

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FISCAL YEAR 2016 - 2017 AUDIT SERVICE PLAN

Engagement Team

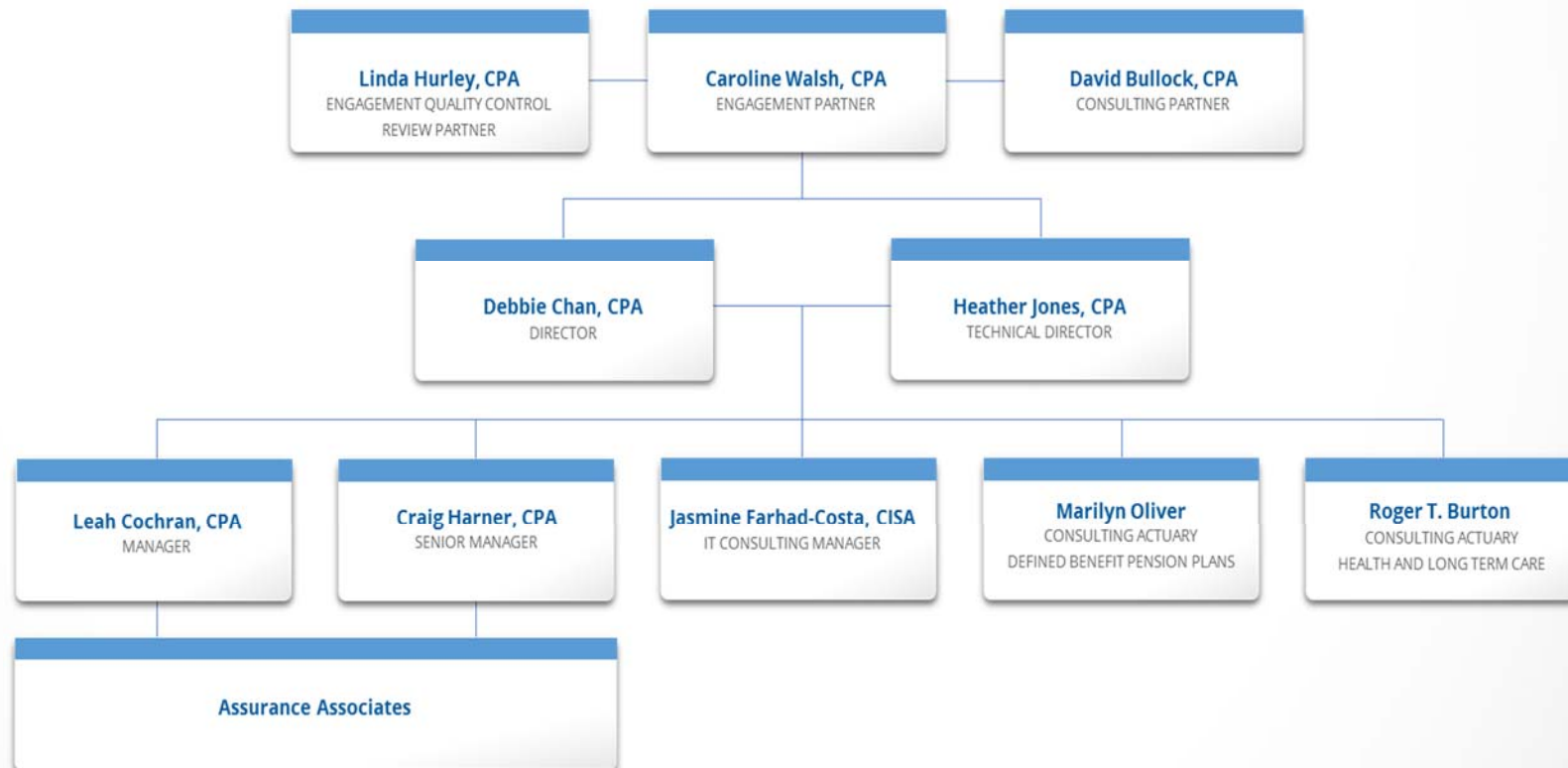


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Scope of Services and Deliverables



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Scope of Services and Deliverables



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Scope of Services

- Audit of Basic Financial Statements

Deliverables

- Independent Auditor's Report
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters (required under *Government Auditing Standards*)
- Reports to the Risk and Audit Committee (Required Communications at Planning and the Conclusion of the Audit)
- Management Comments and Recommendations Letter

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Independent Auditor Responsibilities



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Independent Auditor Responsibilities



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- To express opinions as to the fair presentation of the System's financial statements of its fiduciary activities and proprietary activities, in all material respects, in conformity with accounting principles generally accepted in the United States of America

- To apply certain limited procedures to required supplementary information
 - Management's Discussion and Analysis
 - Schedules of Changes in Net Pension Liability/(Assets)
 - Schedules of Plan Contributions
 - Schedule of Investment Returns
 - Schedule of Claims Development Information

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Independent Auditor Responsibilities



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- To report on the fairness of other supplementary information when considered in relation to the basic financial statements as a whole
 - Administrative Expense – All Funds
 - Investment Expense – Investment Management Fees
 - Investment Expense – Performance Fees
 - Investment Expense – Other Investment Expenses
 - Consultant and Professional Services Expenses – All Funds
 - Statement of Changes in Assets & Liabilities – Agency Fund

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Audit Timeline



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Description	January	February	March	April	May	June	July	August	September	October	November
Planning											
Information Gathering	■	■	■	■	■	■	■	■	■	■	
Interim and Year-end Prepared-By-Client Schedules				■		■					
Entrance Conference					■						
Executive and Board Member Fraud Inquiries					■	■					
Presentation of Audit Plan to the RAC Committee						■					
Execution											
Interim Fieldwork											
Document Internal Controls and Processes				■	■	■					
Perform Risk Assessment				■	■	■					
Test of Controls over Significant Transaction Streams				■	■	■					
Conduct IT-Specific Audit Procedures					■	■					
Tests of Member Census Data					■	■	■				
Year-End Fieldwork											
Financial Statement Audit of Year-End Balances								■	■	■	
Completion											
Final Draft Report											
Independent Auditor's Report – Financial Statements										■	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters										■	
Report to the Risk and Audit Committee (Required Communications with Those Charged with Governance)										■	
Management Comment Letter										■	
Risk and Audit Committee Presentation											■
Report Issuance											■

FISCAL YEAR 2016 - 2017 AUDIT SERVICE PLAN

Audit Approach



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CalPERS Audit Approach



Planning

- Document understanding of internal and external factors affecting the System
- Update understanding of the System's internal control environment, accounting systems and control procedures
- Perform risk assessment to determine the nature, timing and extent of audit procedures
- Complete audit plan, including audit procedures to address identified risks
- Required communications of the audit plan

Execution

- Performance of audit procedures and evaluation of results
- Review of financial statements and subsequent events
- Obtain management representations
- Development of organizational insights

Reporting

- Issue opinions on the System's fiduciary activities and proprietary activities financial statements under U.S. generally accepted auditing standards and *Government Auditing Standards*
- Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters
- Required communications at the conclusion of the audit
- Management comments and recommendations

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Audit Approach



Significant Audit Areas

- Investments and Related Income
- Estimated Insurance Claims Liability
- Contributions
- Benefit Payments
- Premium Revenue
- Claims Expense
- Actuarial Valuations for Single-Employer and Cost-Sharing Multiple-Employer Pension Plans
 - Compliance with Accounting Standards and Actuarial Standards of Practice
 - Reasonableness of Assumptions and Methods
 - Analysis of Changes in Discount Rates
 - Completeness and Accuracy of Member Census Data

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Audit Approach



Response to Significant Audit Areas

- Review of general partner audited financial statements and use of investment valuation specialists, as appropriate
- Review of service organization control reports (SSAE 16 reports) to determine reliance on controls at these organizations and extent of testing of complimentary controls in place at CalPERS
- Use of data extraction software
 - Benefit payments
 - Contributions
- Review of actuarial valuations by MGO's defined benefit plan actuarial specialist
- Review of actuarial valuations by MGO's health and long-term care actuarial specialist

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Recent Developments in Accounting and Financial Reporting



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Recent Developments in Accounting and Financial Reporting



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GASB Statement No. 84: *Fiduciary Activities*. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

- RBF – report as a Custodial Fund (new fund type)
- Include a statement of changes in fiduciary net position as a basic financial statement

GASB Statement No. 85: *Omnibus 2017*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

- Clarified that certain money market investments and participating interest-earning investment contracts may be, but are not required to be, measured at amortized cost
- Classification of employer-paid member contributions for OPEB

**Questions?
Let's Talk.**