

Macias Gini & O'Connell
Summary of Financial Statement Audit Management Letter Comments
Prior Year Report
As of December 31, 2017

Audit Management Letter Comments for the Year Ended 06/30/16

Observation #2: Replacement Benefit Fund Account Reconciliation

Division responsible: Financial Office

The Replacement Benefit Fund (RBF) was established to account for benefit payments to retirees whose retirement allowance exceeds the Internal Revenue Code (IRC) Section 415(b) limits. IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan. Employers are responsible for paying the excess benefit amounts for their former employees, CalPERS sends invoices to the respective employers for the portion of pension benefits exceeding the limits. Upon receiving payments from the employers, CalPERS remits the excess benefit portion to the respective retirees. The accounting and reporting for these types of transactions are custodial in nature and CalPERS reports a statement of net position for the RBF. As part of the fiscal year 2015/2016 financial statement audit, we obtained the year-end reconciliation between the general ledger and my|CalPERS for the receivable from employers and payable to members and employers accounts. We noted the balances do not reconcile and that as part of the annual reconciliation process, the data in the reconciliation generated from my|CalPERS has to be manually adjusted. The Financial Office should work with the appropriate CalPERS Division to ensure that data in the general ledger and my|CalPERS are consistent and the two systems properly reconcile.

Financial Office's Current Update: OPEN. A reconciliation process between systems and additional enhancements to the process are being implemented as part of GASB 84 to complete fiscal year 2016/2017, Observation #3.

Observation #3: Long-Term Care Fund Annual Actuarial Valuation

Division responsible: Actuarial Office/Benefits Programs Policy and Planning/ Financial Office

On an annual basis, an actuarial valuation report is completed to determine the Estimated Liability for Future Policy Benefits for the Long-Term Care Fund. In fiscal year 2015/2016, the Actuarial Office (ACTO) prepared the annual valuation report (the report) based on member census data provided by the third-party administrator. The Financial Office utilizes the report to record the Estimated Liability for Future Policy Benefits in the Long-Term Care Fund and for financial statement disclosure purposes. The Estimated Liability for Future Policy Benefits is considered a significant estimate in the Long-Term Care Fund due to the sensitivity of the underlying actuarial assumptions and methods. The fiscal year 2015/2016 draft valuation results were available in mid-October, which created a challenge in meeting the established financial reporting and audit timeline of October 31st. In order to meet this deadline, the valuation should be completed no later than September 30th to allow sufficient time to complete the financial

reporting and audit process. We understand the completion of the annual actuarial valuation report requires the third-party administrator to submit accurate member census data to ACTO in a timely manner as well as sufficient staffing resources by ACTO. We suggest that ACTO request that the third-party administrator submit the member census data in a time frame that allows ACTO sufficient time to review the data and prepare the report. If staffing constraints delay performing the valuation in a timely manner, we suggest that ACTO evaluate staffing needs and maintain sufficient personnel in order to complete the recommended procedures.

Actuarial Office and Benefits Programs Policy and Planning's Current Update:

RESOLVED. Pending review by Macias Gini & O'Connell. Due to the timing of information from the third party, we have changed the process for calculating the estimated liabilities for the Long-Term Care Fund. Similar to the calculations for the pension funds, we will roll forward the liabilities from the previous year's valuations which will eliminate the need to wait for the information from the third party. This methodology was used in the 2016-17 CAFR.

Audit Management Letter Comments for the Year Ended 06/30/15

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. The my|CalPERS Functional Optimization (FO) project is currently in the design phase. A focused design approach with FINO subject matter experts (SMEs) with breakout and overview sessions for the larger program area SMEs is underway to utilize a focused design strategy to maintain the project timeframes ensuring a June 30, 2018 implementation. Management is also focused on developing a plan to research and resolve current system issues with active members assigned to inactive employers, and employers with multiple ID's, prior to FO implementation.