



Risk and Audit Committee Agenda Item 6b

November 19, 2019

Item Name: Review of Independent Auditor's Management Letter

Program: Audit Services

Item Type: Action

Recommendation

Approve the CalPERS Board of Administration's (Board) Independent Financial Statement Auditor's (Independent Auditor) Draft Management Letter for the fiscal year ended June 30, 2019.

Executive Summary

The Draft Management Letter, prepared by the Board's Independent Auditor, BDO USA, LLP (BDO), includes comments and recommendations related to strengthening internal controls over financial reporting based on the audit of the June 30, 2019 financial statements. Management's concurrence, response, and proposed corrective actions to the observations and recommendations are included in the Draft Management Letter. In addition, management reported that the prior year comments and recommendations were resolved.

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

BDO completed its audit of CalPERS Basic Financial Statements for the fiscal year ended June 30, 2019 as required by Government Code section 20228. In connection with the audit of the financial statements, BDO prepared a Draft Management Letter that includes comments and recommendations to enhance internal controls over financial reporting (Attachment 1).

The Management Letter is considered a draft until it is approved by the Board and subsequently signed by BDO. 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 resolved each noted observation. The tables below summarize the current and prior year observations.

Table 1 – Current Year Observations

Observation	Description
1	Review of Estimated Claim Liabilities – Comprehensive review process over the completeness and accuracy of estimated claim liabilities
2	PeopleSoft Developers Access (SOD) – Segregation of duties

Table 2 – Status of Prior Year Observations

Observation	Description	Status ¹
1	Non-GAAP Policies – Documentation of non-Generally Accepted Accounting Principles (GAAP) policies	Resolved
2	Third Party Administrators (TPA) – Oversight controls over TPA	Open
3	Actuarial Certifications – Documentation of TPA actuarial certifications	Resolved
4	Accounting Position Statement (APSs) – Update of APSs to reflect current CAFR treatment and/or supplemental language	Resolved
5	Census Data – Analysis of data errors related to census data and enhancement internal controls to ensure timely and accurate reporting of census data	Open

Budget and Fiscal Impacts

The fees for the basic financial statements audit is anticipated to total \$1,001,965². Funding was already identified within budgetary resources as is consistent with the Board approved contract.

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.

¹ Management reported three out of five prior year observations were resolved.

² This amount does not include the \$1,648,035 fee for Governmental Accounting Standard Board (GASB) Statement No. 68 and 75 audits.

Attachment

Attachment 1 – Draft Management Letter (including CalPERS management's responses),
prepared by BDO for the fiscal year ended June 30, 2019.

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Office of Audit Services

Matthew G. Jacobs
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