

November 21, 2019

The Board of Administration
California Public Employees' Retirement System
Sacramento, California

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the California Public Employees' Retirement System (CalPERS or the System) as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, we considered the System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

This communication is intended solely for the information and use of management, the Board of Administration, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

(Signed BDO USA, LLP)

Appendix I

We have communicated to management of the System control deficiencies and operational observations that were identified as a result of our audit that we did not consider to be material weaknesses or significant deficiencies as follows:

Review of Estimated Claim Liabilities (Related to Prior Year Finding)

The System's proprietary Health Claims Fund (HCF) records estimated claim liabilities including estimates of the ultimate claim costs that have been reported but not settled, and of claims that have been "incurred but not reported" (IBNR). During our audit, we noted that the System does not have a comprehensive review process over the completeness and accuracy of such claim liabilities. Part of this matter is related to a prior year finding where it was found that the System did not have access to and neither routinely reviewed nor reconciled the detail claims activity processed by the third-party administrators (TPAs) including what supports the IBNR liability for medical claims calculations to what was reflected in the books and records. In addition, there was no evidence that a retrospective analysis was performed to the support the ongoing use of the System's estimate methodologies used.

We recommend that the System put in place a process that comprehensively reviews the IBNR estimates and the methodology used for reasonableness including for completeness and accuracy. Consistent with the prior year finding, the System should also review its oversight controls of the TPAs, reassess contract terms with the TPAs on claims information access and update its controls as deemed necessary. At a minimum, we would recommend that the System reconcile summary TPA claim activity to the detail claim activity on a regular basis.

Management's Response

Management concurs with the recommendation. The Health Plan Administration Division (HPAD) team completed and implemented LTCF procedure and process changes for detailed claims reconciliation, effective January 2019 monthly financial activities. The HPAD team, in coordination with the SCO, will be documenting, implementing and testing the HCF TPA reconciliation of the claims summary to the detail claims for the new PPO Contract Period: January 1, 2020 - December 31, 2024, from April 2019 to December 2019. This will be effective January 1, 2020.

PeopleSoft Developer Access (SOD)

We have observed that developers in PeopleSoft have access to the production environment, allowing them to bypass the program change management controls. As such, this poses as a potential segregation of duties issue.

We recommend that in order to maintain better segregation of duties, the PeopleSoft developers should not have access to the production environment.

Management's Response

Management concurs with the recommendation and will remove developer access to the PeopleSoft production environment by November 15, 2019.