

Summary of Financial Statement Audit Management Letter Comments  
Current Year Report  
As of March 31, 2020

## **Audit Management Letter Comments for the Year Ended 06/30/19**

### **Observation #1: Review of Estimated Claims Liabilities**

#### **Division Responsible: Health Plan Research and Administration Division**

CalPERS' 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.

CalPERS should 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, the System should reconcile summary TPA claim activity to the detail claim activity on a regular basis.

**Health Plan Research and Administration Division's Current Update:** RESOLVED. Pending review by financial statement auditor. The HCF observation #2 for fiscal year 2017/18 and observation #1 for fiscal year 2018/19 that are related to processing and validation of detail health claims expenses and liabilities were completed and implemented on January 15, 2020.

### **Observation #2: PeopleSoft Developer Access**

#### **Division Responsible: Enterprise Solutions Development Division**

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.

In order to maintain better segregation of duties, the PeopleSoft developers should not have access to the production environment.

**Enterprise Solutions Development Division's Current Update:** RESOLVED. Pending review by financial statement auditor. On November 19, 2019, developer access to the PeopleSoft production environment was removed.