

Summary of Financial Statement Audit Management Letter Comments
Prior Year Report
As of June 30, 2020

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

Fiscal Year 2018-19

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. The HCF observation #2 for fiscal year 2017/18 and observation #1 for fiscal year 2018/19 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 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. On November 19, 2019, developer access to the PeopleSoft production environment was removed.

Fiscal Year 2017-18

Observation #2: Third-Party Administrations

Division Responsible: Health Plan Research and Administration Division

CalPERS' proprietary funds include the activities of the HCF and the Long-Term Care Fund (LTCF) and the related oversight and monitoring of claims activity administered by TPAs. During the audit, KPMG noted that CalPERS did not have access to nor routinely reviewed or reconciled the detail claims activity processed by the TPAs to what was reflected in the books and records of either the HCF or the LTCF.

CalPERS should review its oversight controls of the TPAs and update its controls as deemed necessary. At a minimum, KPMG would recommend that CalPERS 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. The HCF observation #2 for fiscal year 2017/18 related to processing and validation of detail health claims expenses and liabilities were completed and implemented on January 15, 2020.

Observation #5: Census Data

Division Responsible: Actuarial Office

CalPERS is responsible for maintaining census data for the approximately 2 million members (active and retired) who participate in CalPERS' defined benefit pension plans. Significant elements of census data include: date of birth; years of service; eligible compensation; and gender among other elements.

Effective management of the census data for active employees include procedures to verify the underlying payroll records of the participating employers to determine that the information provided is complete and accurate as this census information is utilized by CalPERS' actuaries to calculate a total pension liability for each of the various defined benefit plans, a significant accounting estimate that is part of the financial reporting process.

In accordance with audit procedures promulgated by the American Institute of Certified Public Accountants (AICPA), KPMG subjected certain Schools and Public Agencies whose employees are active members of the PERFs to census testwork that included comparing such information to the census file used by CalPERS. The results of testwork indicated approximately 100 data quality issues such as incorrect date of birth, understated eligible compensation and/or incorrect years of service. Such data quality issues are not unusual for a public employee retirement system with nearly 1.3 million active members.

KPMG understands that the CalPERS continually updates both the information technology and manual controls over its member management system, my|CalPERS.

CalPERS should conduct a root cause analysis for all its known errors and adjust its internal controls accordingly to address any common causes related to data errors. One potential common cause is the timeliness of data submitted through the my|CalPERS portal. Accordingly, KPMG is also recommending that CalPERS enhance its existing internal controls to ensure the timely and accurate reporting of census data by the participating employers.

Actuarial Office's Current Update: RESOLVED. The Actuarial Office (ACTO) provided data errors to the appropriate units. A couple business areas, Payroll and Refunds, are continuing to work through and correct identified errors. ACTO has developed a process for collecting errors and coordinating with other units for correction. This is an ongoing process that has been incorporated into our regular work cycle. Since new errors are regularly identified, this process won't have an end date and will continue to be part of our regular work cycle.