CalPERS

Risk & Audit Committee

Agenda Item 5b

November 18, 2025

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) Management Letter for the fiscal year ended June 30, 2025.

Executive Summary

The draft Management Letter, prepared by the Board's Independent Auditor, BDO USA, (BDO), includes comments and recommendations related to strengthening internal controls over financial reporting based on the audit of the June 30, 2025 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 observation was resolved.

Strategic Plan

This item is not a specific product of the strategic plan. Government Code section 20228 requires the board to annually employ a certified public accountant, who is not in public employment, to audit the financial statements.

Background

BDO completed its audit of CalPERS Basic Financial Statements for the fiscal year ended June 30, 2025, 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 team, 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 table below summarizes current year observations.

Table 1 – Status of Observation

Observation	Description	Status
1	BDO observed that an approver of changes to be released to production had inappropriate access to the developer role of the Automated Real Estate Investment System (AREIS). The development access allowed this user to develop code modifications to AREIS. We observed a user had the developer role access which grants the ability to develop logic or code and then access to approve/commit this code for release to production. This results in a segregation of duties conflict because it provides the individual with the potential ability to modify the report logic without a secondary approval. Although CalPERS has segregated developers and deployers on the application level, having access to the development and be an approver could bypass Azure DevOps system functionality, which results in a segregation of duties conflict. Additionally, no audit is being performed of the system change log nor database log-in access report to check for and investigate anomalies. CalPERS does have a configuration that requires code changes to be approved by a second user that was observed to be set to require the second approver, but there was no audit log to prove that this configuration was not changed during the audit period. Management has removed the developer access from the user who had inappropriate access to the development environment. To strengthen the change management control environment, it is recommended that the change logs be reviewed on a regular basis for appropriateness by an individual who does not have approver access to AREIS.	Remediated

Budget and Fiscal Impacts

The independent financial statement auditor agreement is from May 1, 2020 to April 30, 2026 for a total amount of $13,250,000. The fee schedule for the basic financial statements audit for the fiscal year ending 6/30/2025 is $1,060,630[1] and $392,760 for the Governmental Accounting Standard Board (GASB) Statement No. 75 audits. 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 the 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] This amount does not include the $1,196,610 fee for GASB 68 audits.

Attachments

Attachment 1 – Management Letter (including CalPERS management's responses), prepared by BDO for the fiscal year ended June 30, 2025

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