



Risk & Audit Committee

Agenda Item 5b

November 15, 2022

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, 2022.

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, 2022 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's observations were 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, 2022, 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

Observations	Description
1 (FY 2021-22)	<p>BDO observed that the proceeds receivable related the secondary sale of certain private equity investments were inappropriately recorded in Global Equity Securities instead of Investments Receivable. Although this classification error was not material either quantitatively or qualitatively, the reclassification was proposed by BDO and corrected by management. This error and the subsequent correction had no impact on total investments or total additions but only a change within the correct financial statement line item.</p> <p>In order to appropriately record proceeds receivables, we recommend management to implement a control during year end to review whether any proceeds from sales that have taken place prior to year-end are still to be received and to assess for proper classification of them on the financial statements.</p>

Table 2 – Status of Prior Year Observation

Observation	Description	Status
1 (FY 2020-21)	Segregation of Duties Related to Oversight of Dormant Accounts - Payments issued from dormant accounts can be requested and approved by the same individual. The team responsible for processing distribution payments can also update the direct deposit information in retiree accounts.	Resolved
2 (FY 2020-21)	Death Benefit Overpayment Receivables – Deaths were not consistently identified; receivables were not consistently recorded within 30 days after the identification of death; certain lump sum survivor benefits were issued without first recovering the receivables; adequate attempts were not made to collect receivables; and receivables were not reviewed for timely write- off.	Resolved
3 (FY 2020-21)	Review of Access Rights to Actuarial Valuation Systems (AVS) – Active AVS users have security administrative access role. User access logs is audited by an individual who has security administrative access rights to AVS.	Resolved

Budget and Fiscal Impacts

The fee for the basic financial statements audit is anticipated to total \$1,457,437¹, including \$397,413 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.

Attachment

Attachment 1 – Management Letter (including CalPERS management’s responses),
prepared by BDO for the fiscal year ended June 30, 2022

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¹ This amount does not include the \$1,192,568 fee for GASB 68 audits.