



January 28, 2020

2019-004

Honorable Betty T. Yee, State Controller
Office of the State Controller
300 Capitol Mall, Suite 1850
Sacramento, California 95814

Dear Controller Yee:

The California State Auditor's Office presents its Independent Auditor's Report on the State Controller's Office (SCO) *Schedule of Other Postemployment Benefits (OPEB) Pay-As-You-Go-Contributions, Schedule of OPEB Prefunding Contributions by Valuation Group, Schedule of Retiree Headcount by Valuation Group, and Schedule of OPEB Amounts by Valuation Group* for the OPEB plans of the State of California, as of and for the year ended June 30, 2018. The schedules and related notes provide certain state entities and their auditors with information related to the Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and are presented in conformity with accounting principles generally accepted in the United States of America.

Our report is intended solely for the parties included in the restriction on use paragraph contained in the Independent Auditor's Report and is not intended to be and should not be used by anyone other than these specified parties.

We conducted the audit under the authority of Government Code section 8546.4.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael Tilden". The signature is written in a cursive, flowing style.

MICHAEL S. TILDEN, CPA
Deputy State Auditor



Independent Auditor's Report

THE LEGISLATURE OF THE STATE OF CALIFORNIA
AND THE CALIFORNIA STATE CONTROLLER'S OFFICE

We have audited the accompanying Schedule of Other Postemployment Benefits (OPEB) Pay-As-You-Go Contributions, Schedule of OPEB Prefunding Contributions by Valuation Group, and Schedule of Retiree Headcount by Valuation Group for the OPEB plans (the plans) of the State of California as of and for the year ended June 30, 2018, and the related notes. We have also audited the net OPEB liability, deferred outflows of resources, deferred inflows of resources, and total OPEB expense included in the accompanying Schedule of OPEB Amounts by Valuation Group for the plans as of and for the year ended June 30, 2018, and the related notes.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the schedules based on our audit. We conducted our audit 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*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the OPEB pay-as-you-go contributions, the OPEB prefunding contributions, the retiree headcount, the net OPEB liability, deferred outflows of resources, deferred inflows of resources, and total OPEB expense for the plans as of and for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, 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*, issued by the Comptroller General of the United States of America, the financial statements of the State of California as of and for the year ended June 30, 2018, and our report thereon, dated May 29, 2019, expressed an unmodified opinion on those financial statements.

Restriction on Use

Our report is intended solely for the information and use of the California State Controller's Office; Gabriel, Roeder, Smith & Company; the plans' employers and their auditors and is not intended to be, and should not be, used by anyone other than these specified parties.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2019 on our consideration of the State of California's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the fiscal year ended June 30, 2018. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

CALIFORNIA STATE AUDITOR

A handwritten signature in black ink that reads "Michael Tilden". The signature is written in a cursive, flowing style.

Michael S. Tilden, CPA
Deputy State Auditor

Sacramento, CA

January 27, 2020