Donald C. Kendig, CPA
Agent

FCERA Realty Group LLC
7778 N Palm Ave ◆ Fresno, CA 93721

BOARD AGENDA LETTER

DATE: May 2, 2018

TO: Board of Retirement as Sole Member, FCERA Realty Group LLC

FROM: Donald C. Kendig, CPA, Agent

SUBJECT: **Receipt and Filing of the Financial Statements for FCERA Realty Group LLC for the year ended December 31, 2017 and the Accompanying Independent Auditor Reports – RECEIVE AND FILE**

Recommended Actions

1. Receive and file the Financial Statements for FCERA Realty Group LLC for the year ended December 31, 2017 containing the Independent Auditor's Report;
2. Receive and file the Independent Auditor's Statement on Auditing Standards (SAS) 114 Report; and,
3. Receive and file the Independent Auditor's Agreed Upon Conditions (AUC) Report.

Fiscal and Financial Impacts

There are no anticipated fiscal or financial impacts from receiving and filing this report.

Background and Discussion

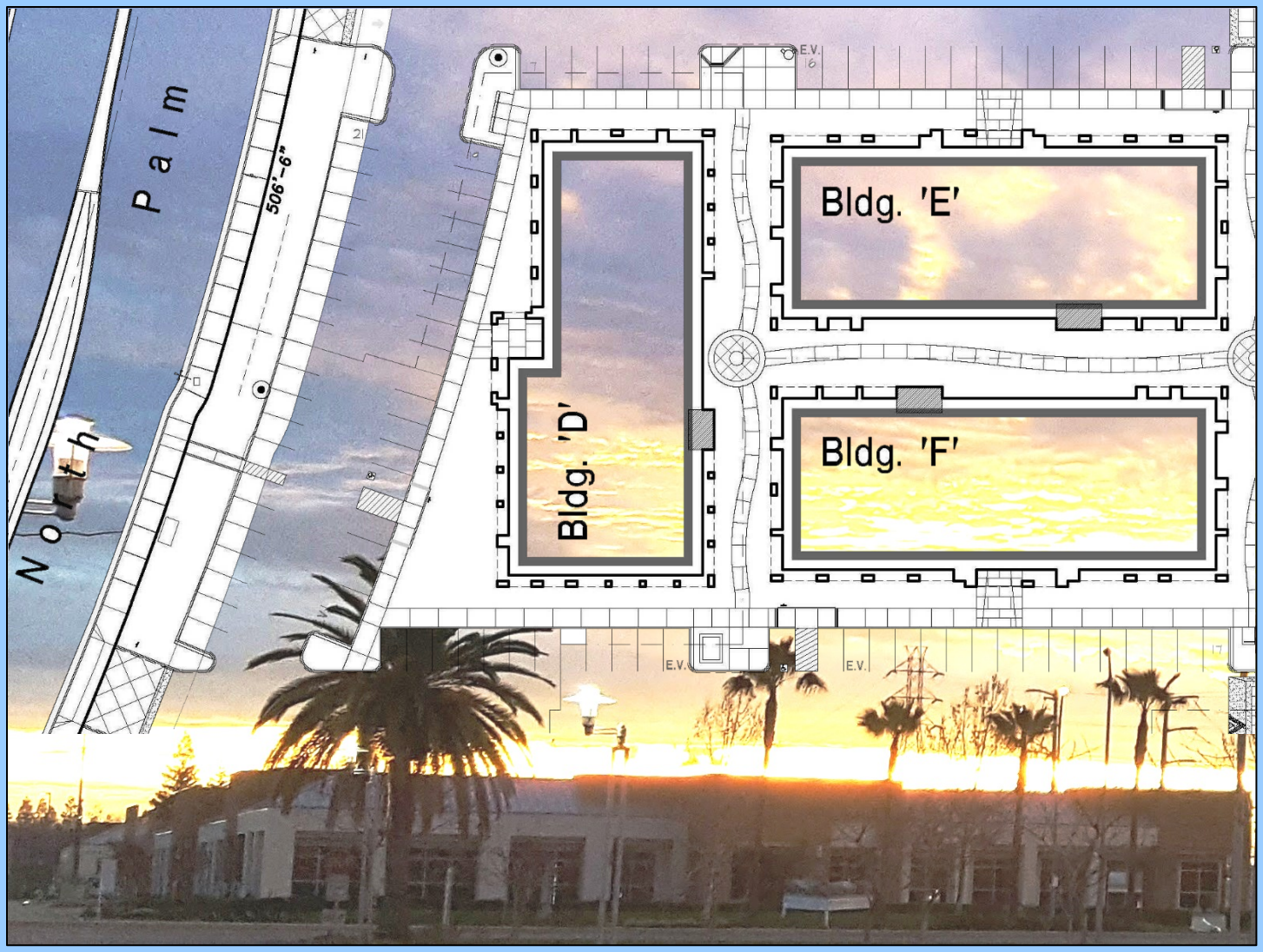
The Board of Retirement as Sole Member of FCERA Realty Group LLC ("LLC") directed staff to obtain an independent audit of the financial statements for the LLC.

Attached, the Board will find the results of that independent audit in the form of three independent auditor's reports: 1) the Independent Auditor's Report contained within the financial statements themselves with a clean audit opinion and one other matter describing the valuation of the rental property, 2) the Independent Auditor's Statement on Auditing Standards (SAS) 114 Report, which, is intended to foster a thorough discussion of the governing body with the independent auditor, and 3) the Independent Auditor's Agreed Upon Conditions (AUC) Report, which contains a known finding regarding the segregation of duties to be rectified by the hiring of a property management firm.

The auditors will be available by phone to answer any questions you may have.

Attachments

1. Financial Statements for FCERA Realty Group LLC for the year ended December 31, 2017 containing the Independent Auditor's Report
2. Independent Auditor's Statement on Auditing Standards (SAS) 114 Report
3. Independent Auditor's Agreed Upon Conditions (AUC) Report



FCERA

REALTY

GROUP LLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017 (INAUGURAL YEAR)

The cover is of a sunrise behind FCERA Realty Group LLC's investment, taken by Donald C. Kendig, CPA, the LLC's Agent, after going to the gym, and before the start of the workday. Mr. Kendig is facing east towards the rising sun and 7766 N Palm Avenue (Building D). An architectural rendering is overlaid on the sunrise to give an artistic view of the adjoining locations of the LLC's three buildings, and their relative location to Palm Avenue. Nees Avenue is just to the north, but not pictured. Background and headings are blue for the color of the sky on a new dawn for this new investment's inaugural year.

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REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
FCERA Realty Group LLC
Fresno, California

Report on the Financial Statements

We have audited the accompanying financial statements of FCERA Realty Group LLC (the LLC), which comprise the statement of net position as of December 31, 2017; the related statement of activities, changes in net position, and cash flows for the year then ended; and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the LLC's preparation and fair presentation of the financial statements 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 LLC'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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the LLC as of December 31, 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

As discussed in Note 2, the rental property has been valued by management at estimated current appraisal value. The current value incorporates independent appraisals by designated Members of the Appraisal Institute. We have reviewed the procedures used in arriving at the estimates of current value of such investments and we believe the procedures to be reasonable. However, because of the inherent limitations of such valuation methodology, the estimated fair values may differ materially from the values that would have been realized had a sale transaction for the investments actually occurred.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
April 20, 2018

BASIC FINANCIAL STATEMENTS

Statement of Net Position

	December 31, 2017
Current Assets	
Cash	$ 30,799
Prepaid Insurance	9,007
Total Current Assets	39,806
Rental Properties at Fair Value	
7766, 7772 & 7778 N Palm Ave	6,544,280
(Cost of $6,933,140 as of December 31, 2017)	
Total Assets	$ 6,584,086
Liabilities:	
Unearned Rent	$7,582
Security Deposits and Refunds Due	8,085
Accounts Payable and Other Liabilities	65,464
Total Liabilities	81,131
Unrestricted Net Position	$ 6,502,955

The accompanying notes are an integral part of these financial statements.

Statement of Activities

	December 31, 2017
Revenues:	
Rental Income	$92,575
Total Revenues	92,575
Expenses:	
Mold Remediation	352,741
Property Taxes	65,293
Legal: Mold Remediation	34,577
Association Dues	24,050
Broker Commissions	14,770
Legal: Leasing and Tax	12,698
Insurance	9,007
Utilities	8,567
Appraisal Fees	3,800
Real Property Escrow	3,326
Equipment	2,867
Miscellaneous Office Expense	1,998
Fire and Methane Monitoring	1,698
Accounting	1,556
Security	1,121
Taxes and Filing Fees	831
Total Expenses	538,900
Decrease in Net Position	(446,325)
Unrealized Depreciation on Rental Property	(388,860)
Net Decrease in Net Position before Contributions & Distributions	(835,185)
Contributions from Sole Member	8,213,140
Distributions to Sole Member	(875,000)
Net Increase in Net Position	$ 6,502,955

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Net Position

	December 31, 2017
Net Position, Beginning of Year	$ -
Decrease in Net Position	(446,325)
Unrealized Depreciation on Rental Property	(388,860)
Net Decrease in Net Position before Contributions & Distributions	$ (835,185)
Contributions from Sole Member	$ 8,213,140
Distributions to Sole Member	(875,000)
Net Position, End of Year	$ 6,502,955

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

	December 31, 2017
Cash Flows from Operating Activities	
Decrease in Net Position	$ (446,325)
Adjustments to Reconcile Decrease in Net Position to Net Cash Used in Operating Activities:	
Increase in Operating Assets:	
Prepaid Insurance	(9,007)
Increase in Operating Liabilities:	
Accounts Payable and Other Liabilities	65,464
Unearned Rent	7,582
Security Deposits and Refunds Due	8,085
Total Adjustments	72,124
Net Cash Flows Used in Operating Activities	(374,201)
Cash Flows from Investing Activities	
Purchase of Rental Properties	(6,933,140)
Net Cash Flows Used in Investing Activities	(6,933,140)
Cash Flows from Financing Activities	
Sole Member Conributions	8,213,140
Sole Member Distributions	(875,000)
Net Cash Flows from Financing Activities	7,338,140
Net Increase in Cash	30,799
Cash, Beginning of Year	-
Cash, End of Year	$ 30,799
Supplemental Disclosures of Cash Flow Information	
Non-Cash Investing Activities:	
Net Unrealized Depreciation on Rental Property	$ (388,860)

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1: Organization

Ownership

FCERA Realty Group LLC, a single-member LLC, (the LLC) was registered in the State of California on February 7, 2017 for the purpose of acquiring the rental properties. The single member of the LLC is the Fresno County Employees' Retirement Association (FCERA), which is a qualified pension plan. On March 24, 2017, the LLC acquired three office buildings located at 7766, 7772, & 7778 N Palm Avenue, Fresno, CA 93711, which are 9,480, 9,184, and 9,184 square feet, respectively, or 27,848 square feet of office space in total, in the form of cold dark shells.

Management

The Retirement Administrator for FCERA is the registered agent. The FCERA also provides administrative services and support to the LLC. Refer to Note 5 for a full description of related party transactions.

Note 2: Summary of Significant Accounting policies

Principles of Reporting

The accompanying financial statements are prepared under accounting principles generally accepted in the United States of America using the accrual basis of accounting. Accordingly, revenues are recognized as earned and expenses are recognized as incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash

For the purpose of the cash flow statements, cash is deposits held with banks.

Note 2: Summary of Significant Accounting policies (cont'd)

Valuation of Rental Property

The LLC's policy is to perform independent appraisals of the properties every three years. An initial appraisal was performed to estimate 1) the "cold shell" fair value of each of the three properties, and 2) the "cold shell" fair rental value of each as of March 15, 2017. The properties will be re-appraised within three months of the final tenant improvements, and then every three years thereafter.

The initial appraisal includes a complete property and market inspection and analysis by designated Members of the Appraisal Institute (MAI), and the initial appraisal was prepared in accordance with the requirements of the Appraisal Report option of Uniform Standards of Professional Appraisal Practice (USPAP) Standards Rule 2-2(b), which are the generally recognized ethical and performance standards for the appraisal profession in the United States. Calculations used in the initial independent appraisal was based on a sales comparison approach.

The rental property's stated fair value can be defined as the most probable price in cash, terms equivalent to cash, or in other precisely revealed terms, for which the appraised property will sell in a competitive market under all conditions requisite to a fair sale with the buyer and seller each acting prudently, knowledgeably, and assuming that neither is in undue duress.

Because of the inherent uncertainty of real estate valuations related to assumptions regarding highest and best use, capitalization rates, discount rates, leasing, and other factors, the estimated fair values reflected in the financial statements may differ from values that would be determined by negotiation between independent parties in sales transactions, and the difference could be material.

The LLC does not provide for depreciation and amortization on its rental property. Any difference between cost and fair value of rental property held as of the year-end or reporting period is reported as a change in unrealized appreciation/(depreciation) on rental property.

Note 2: Summary of Significant Accounting policies (cont'd)

Valuation of Rental Property (cont'd)

Any difference between cost and fair value of rental property disposed of during a year or reporting period is reported as a realized gain/(loss) on rental property.

Expenses for major renewals and betterments are capitalized. Expenses for repairs and maintenance, and restorative remediation are expensed when incurred.

Security Deposits and Rental Income

The LLC recognizes rental income based on the contractual rents due under the terms of the related leases. Security deposits consist of tenant payments made as stipulated in the agreements.

Federal Income Taxes

The LLC qualifies for exemption from federal income tax as a disregarded entity. This is because the LLC is a Single Member LLC ("SMLLC"). An SMLLC is a separate entity for state law purposes, providing protection to the parent entity from liabilities of the SMLLC, but it is a disregarded entity for federal tax purposes, assuming the tax status of its parent entity. The parent entity, FCERA, is a tax-exempt government pension plan, and accordingly, there is no provision for income taxes made in the accompanying financial statements for the LLC.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the LLC and recognize an federal income tax liability (or asset) if the LLC has taken an uncertain federal income tax position that, more likely than not, would not be sustained upon examination by the Internal Revenue Service.

Note 2: Summary of Significant Accounting policies (cont'd)

Federal Income Taxes (cont'd)

Management has analyzed the federal income tax position taken by the LLC, and has concluded that as of December 31, 2017, there is no uncertain federal income tax position taken or expected to be taken that would require recognition of a federal income tax liability (or asset) or disclosure in the financial statements. The LLC is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

California State and Fresno City Taxes

As mentioned under "Federal Income Taxes" accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the LLC and recognize a California State (State) or Fresno City (City) tax liability (or asset) if the LLC has taken uncertain tax positions that, more likely than not, would not be sustained.

Management has analyzed the State and City tax positions taken by the LLC, and has concluded that as of December 31, 2017 there is no uncertain State or City income tax positions taken or expected to be taken that would require recognition of a tax liabilities (or assets) or disclosure in the financial statements. The LLC is seeking State and City tax exemptions. The LLC is requesting that the State recognize it as a public body and thus, exempt from the requirement to file returns or pay either income or franchise taxes in accordance with *Los Angeles County v. Dockweiler* (1939) 14 Cal.2d 437. The City has indicated that it would accept the State's determination. As of the date of this report, the State's determination is still pending.

Property Taxes

The LLC paid its prorated share of existing property tax bills at the time of the close of escrow, and recognized a liability for what management estimates will be assessed and attributable for the year ended December 31, 2017.

Note 2: Summary of Significant Accounting policies (cont'd)

Expenses

Expenses are listed in detail, in descending amount order, for the inaugural presentation of the financial statements and consist of: onetime mold remediation expenses; property taxes; legal fees associated with the recoupment of mold remediation expenses; association dues from Palm Bluffs Corporate Center and Three Points at Palm Bluffs; onetime broker commissions per successful lease; legal fees associated with tax determinations, preparations, and leases; property insurance; utilities; periodic appraisal fees; onetime real property escrow fees; equipment; miscellaneous office expense; fire and methane monitoring; accounting; onetime supplemental security; and, taxes and filing fees.

Mold Remediation and Legal: Mold Remediation

Mold was discovered in all three buildings shortly after the close of escrow and the costs incurred by the LLC to assess and remediate the buildings are recorded under Mold Remediation. The LLC is pursuing reimbursement for the expenses incurred and has enlisted the support of legal counsel, recorded under legal: mold remediation, and additional experts recorded under mold remediation.

Common Area Maintenance (CAM) Expense

In addition to base rent, tenants are responsible for additional payments related to certain operating expenses including property taxes, association dues, insurance, utilities, fire and methane monitoring, property insurance, external janitorial and pressure washing, and common area maintenance fees (CAM). CAM expenses are budgeted yearly and collected monthly with the base rent. The fees are calculated on a pro rata share of each tenant's office space.

Note 2: Summary of Significant Accounting policies (cont'd)

Capital Contributions

Per the operating agreement, the sole member made an initial contribution to the capital of the LLC in the amount of $800,000. Further capital contributions were made as determined by the sole member. Total capital contributions were $8,213,140 at December 31, 2017.

Distributions to Sole Member

Per the operating agreement, distributions shall be made to the sole member at the times and in in the aggregate amounts determined by the sole member. Total distributions to the sole member were $875,000 at December 31, 2017.

Subsequent Events

Subsequent events were evaluated through April 20, 2018, which is the date the financial statements were available to be issued. There was one subsequent event identified by management which requires disclosure in the financial statements. The anticipated rent commencement for the first tenant in 7766 N Palm Avenue was moved from March 15, 2018 to July 15, 2018 in consideration for an additional $4,040 in deposit, to be refunded December 31, 2018, and an additional 6 months added to the ten-year lease term.

Operating Leases

Since October 1, 2017, 7772 and 7778 N Palm Avenue have been 100% leased and 100% occupied. Since October 15, 2017, 7766 N Palm Avenue has been 34.32% leased and 0% occupied. Unearned rent of $7,582 is recorded for the first month's rent to mark the occupancy to start in 2018.

Note 2: Summary of Significant Accounting policies (cont'd)

Operating Leases (cont'd)

The following table depicts the approximate percentage of office space each tenant occupies as of December 31, 2017:

Tenant	Approximate Percentage of Total Rental Space
7766 N Palm Avenue:	
None	0%
7772 N Palm Avenue:	
Fresno County Employees' Retirement Association	100%
7778 N Palm Avenue:	
Fresno County Employees' Retirement Association	100%

Note 3: Cash

Cash consisted of the following as of December 31, 2017:

	December 31, 2017
Cash in Bank	$ 30,799
Total Cash	$ 30,799

Note 4: Concentration of Credit Risk

The LLC maintains all cash in a bank account with one institution. The Dodd-Frank Wall Street Reform and Consumer Protection Act, signed into law on July 21, 2010, permanently raised the standard maximum deposit insurance amount to $250,000 FDIC insurance limit per depositor, per depository institution or insured bank in an effort to increase consumer confidence in the banking system. At times balances will exceed the insured limit. The LLC has not experienced any losses in such accounts and, therefore, does not feel that it is exposed to any significant risk in this area.

At December 31, 2017, the LLC's cash balances in excess of the applicable insured limit of $250,000 totaled $0.

Note 5: Related Party Transactions

The following represent transactions between the LLC and related parties:

On October 1, 2017, the LLC entered into a lease agreement with FCERA (the sole member) to lease 7772 and 7778 N Palm Avenue for retirement office space. The boards and administrative staff of FCERA and the LLC are one in the same and occupy these two buildings. The term of the lease is ten years with five options for five-year extensions. The base rent is $1.20 per square foot per month, triple net.

For the fiscal year ended December 31, 2017, the LLC received $92,575, as rental income, inclusive of Common Area Maintenance (CAM) Fees from these related parties. As part of the rent, FCERA is responsible for CAM fees and $26,450 of the rent was attributable to CAM fees for the year ended December 31, 2017.

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BROWN ARMSTRONG
Certified Public Accountants

To the Board of Directors of
FCERA Realty Group LLC
Fresno, California

We have audited the financial statements of FCERA Realty Group LLC (the LLC) for the year ended December 31, 2017, and have issued our report thereon dated April 20, 2018. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 23, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the LLC are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the LLC during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events as well as assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> The estimate of the rental property has been valued by management at estimated current appraisal value. This current value incorporates an independent appraisal by designated Members of the Appraisal Institute. We have reviewed the procedures used in arriving at the estimated of current value of such investment, and we believe the procedures to be reasonable. However, because of the inherent limitation of such valuation methodology, the estimated fair value may differ materially from the values that would have been realized had a sale transaction for the investment actually occurred.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

> The disclosure of rental property investment in Note 2 to the financial statements as described above.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached schedule shows material misstatements detected as a result of audit procedures that were corrected by management.

Disagreements with Management
For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated April 20, 2018.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the LLC's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Corporation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Restriction on Use

This information is intended solely for the use of the Board of Directors and management of the LLC and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
April 20, 2018

Summary of Significant Audit Adjustment
December 31, 2017

	Decrease Unrestricted Net Position
Accrual of property taxes	$ 59,034
Total Audit Adjustment	$ 59,034

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

BROWN ARMSTRONG
Certified Public Accountants

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AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING

To the Board of Directors of
FCERA Realty Group LLC
Fresno, California

In planning and performing our audit of the financial statements of FCERA Realty Group LLC (the LLC) as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the LLC's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of the LLC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the LLC's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The recommendation listed in this report summarizes our comment and suggestion regarding this matter.

We will review the status of this comment during our next audit engagement. We have already discussed our comment and suggestion with LLC personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

This communication is intended solely for the information and use of management, the Board of Directors, others within the LLC, and the regulatory agency and is not intended to be, and should not be, used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
April 20, 2018

Current Year Agreed Upon Conditions and Recommendations

Condition 1 – Segregation of Duties

During our understanding and walkthrough performed over internal controls over the key accounting areas, we noted that there is a lack of segregation of duties, as the Retirement Administrator processes, authorizes, and records transactions for the LLC. We also noted that the LLC's checks only require one signature, which is the Retirement Administrator.

Recommendation

The primary incompatible duties that need to be segregated are authorization or approval of transactions, custody of assets, recording transactions, and reconciliations. We recommend the LLC divide the four responsibilities to separate employees so that the work of one individual employee is either independent of, or serves to check on, the work of another. If duties cannot be sufficiently segregated due to the small size of the LLC, it is important that mitigating controls, such as a detailed supervisory review of the activities, be put in place to reduce risks. We also recommend the LLC require two signatures on its checks.

Management Response

The Retirement Administrator, who is a Certified Public Accountant, concurs with the Independent Auditor's assessment of the condition and all of the recommendations, except the requirement of two signatures on the checks. With the right segregation of duties, two signatures would not appear necessary. The full accounting, and management of the properties, for the LLC will be transferred to an external, professional property management firm, as intended, by June 1, 2018. Requests for funding and distributions will be initiated by the property management firm, and it will handle the authorization, review and approval for expenditures, utilizing its internal controls and procedures, for its expenditures, the vast majority of the expenditures for the LLC, if not all. The LLC's payment processing will be transferred to Fresno County Employees' Retirement Association (FCERA) Accounting Unit staff utilizing the audited internal controls already in place for FCERA, with the exception that payments approved will be submitted to the Retirement Administrator for signature, as opposed to the Auditor Controller Treasurer Tax Collector. Under the current and future procedures, the Board of Retirement retains all authority to review, question, and reject all payments after the fact.