

**FRESNO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

REPORT TO MANAGEMENT

FOR THE YEAR ENDED JUNE 30, 2010

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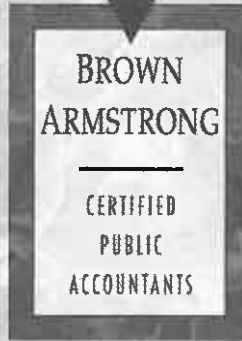
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December 7, 2010

Audit Committee and Board of Retirement
Fresno County Employees' Retirement Association
1111 H Street
Fresno, California 93721

Dear Board Members:

In planning and performing our audit for the Fresno County Employees' Retirement Association (FCERA) for the year ended June 30, 2010, we considered the internal control structure in order to determine our auditing procedures and not to provide assurance on the internal control structure. Although our audit was not designed to provide assurance on the internal control structure, we noted certain matters involving the internal control structure and its operations, and are submitting for your consideration, related recommendations designed to help FCERA make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to FCERA.

We appreciate the cooperation that we have received from FCERA in connection with developing these recommendations, and the opportunity to have been of service to you and others at FCERA. Should you have any questions about our recommendations, this letter, or other matters, please contact Andrew Paulden, Engagement Partner, at (661) 324-4971.

The accompanying comments and recommendations are intended solely for the information and use of management and others within FCERA.

Sincerely,

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "Andrew J. Paulden", is written over the printed name.

By: Andrew J. Paulden

**FRESNO COUNTY EMPLOYEES'
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I. CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS

Condition Number 1 – ADV Forms

Form ADV is used to apply for registration as an investment advisor or to amend a registration. It consists of two parts. Part I contains general and personal information about the applicant. Part II contains information relating to the nature of the applicants business, including basic operations, services offered, fees charged, and types of clients advised, education and business backgrounds of associates and other business activities of the applicant. Form ADV-S is an annual supplement to Form ADV required to be filed by persons registered as an investment advisor with the Commission. It must be filed no later than 90 days after the end of the registrant's fiscal year.

When analyzing investments, we noted that FCERA does not receive and review ADV forms for all investment managers filing the form.

Recommendation

ADV forms should be obtained and reviewed on a yearly basis to ensure that investment managers are in compliance with their reporting requirements.

Views of Responsible Officials and Planned Corrective Action

FCERA agrees with this finding. We will monitor the process more closely to ensure timely follow-up and proper documentation on our requests for information.

Condition Number 2 – Investment Manager Audited Financial Statements

During our analysis of investments, we noted that FCERA does not obtain audited investment manager financial statements for review on a yearly basis.

Recommendation

FCERA should require that all investment managers, both public and nonpublic, provide their audited financial statements on an annual basis. Review of these statements should be performed by FCERA staff and follow-up should be made with investment managers when it is noted that the investment manager received an opinion other than an unqualified opinion.

Views of Responsible Officials and Planned Corrective Action

FCERA agrees with this finding. We will monitor the process more closely to ensure timely follow-up and proper documentation on our requests for information.

Condition Number 3 – Deceased Member

As part of our testing of deceased members we verify that the member file contains a copy of the death certificate, benefit payments ceased shortly after notification of the member's death, member was excluded from payroll and payment was made to beneficiary within a reasonable time after notification of the member's death. Additionally, we inquire staff of the procedures in place to ensure that all deceased members are identified within a reasonable time.

In an ongoing attempt to receive notification of member deaths in a timely manner, FCERA employs the Berwyn Group, an independent mortality identification service. FCERA receives Death Check reports on a semi-annual basis. Per our review of the Berwyn Group's Death Check report, dated November 5, 2009, we noted that benefit payments for a member deceased on October 28, 2008, had not ceased resulting in an overpayment of \$68,450.51 over 19 pay periods. Further procedures performed after our initial discovery noted that this member was also included in the May 5, 2009, Death Check report.

Also, during our review of the November 5, 2009, Death Check report, we noted that twenty-one (21) members presented on the list were not classified in Pensions as Deceased. In addition six (6) of the twenty-one (21) members not classified in Pensions as deceased were also not included in FCERA's decedent population.

Recommendation

We recommend that the Berwyn Group's semi-annual Death Check reports be reviewed in a timely manner to ensure that benefit payments cease shortly after notification of a member's death and that Pensions is updated and kept current.

Views of Responsible Officials and Planned Corrective Action

The FCERA contracted with Smail World, LLC in September 2010 to provide more timely death reporting. Through Smail World, LLC, FCERA can obtain death reports as often as daily. We are anticipating that this will reduce the occurrence of overpayments due to delays in notification of deaths. The procedures require an initial letter to the recipient to confirm the death of the recipient before the checks are stopped. If an appropriate response is not received within 30 days of the letter, the next benefit check will be redirected to FCERA and future benefit checks will be stopped.

FCERA is aware that Pensions does not report deceased members as deceased immediately upon notification of death. The program requires that the Death Event be completed, including the distribution of the final payment, before the member is categorized as deceased. However, the results of the audit do show that FCERA is not completing the Death Event timely resulting in an incorrect classification of deceased members. Additional review and a checklist will be developed and implemented to insure that the Death Event is completed timely in the future and that the Decedent Log is appropriately updated.

Condition Number 4 – Pensionable Salary

During our testing of active member contributions we verify that member pensionable salary includes the correct pay items. Common pensionable salary items are, but are not limited to, regular hours worked, vacation, sick, holiday, voluntary and mandatory furlough, briefing jobs, injury and education leave. Our analysis consisted of comparing the payroll records of the County of Fresno and FCERA. Of the five (5) actively contributing members selected for testing one (1) member's pensionable payroll was different in Pensions. As a result of further inquiry with the client, it was noted that a \$33.32 difference occurred as a result of the import file received from the County being set-up to send FCERA the base pay when there is no pay activity recorded on the on-cycle pay process. This occurs when an employee is classified as Leave of Absence or fails to complete a timesheet and an off-cycle payroll check is issued. Off-cycle payroll checks are not included in the payroll import provided to FCERA by the County.

Recommendation

To ensure that FCERA payroll records are complete and that final average salary is accurately calculated we recommend that the client provide their employees instruction to update pay history for members used in the off-cycle process. We recommend reviewing retirees with an off-cycle payroll to ensure that their final comp was appropriately calculated.

Views of Responsible Officials and Planned Corrective Action

We have provided a training class and gave additional instructions to address this issue going forward. We will be reviewing retirees processed through payroll since the implementation of the PENSIONS system in 1998 to ensure that any off-cycles processed by the County were properly reflected in the pay history and calculation of their final compensation. Adjustments will be made, if necessary.

Condition Number 5 – Terminated Members

During our testing of current year terminations from the Plan we review members that requested a withdrawal of funds on deposit with FCERA. During our analysis of withdrawals we review the member file to verify that the member was eligible to withdraw the funds on deposit, ensure that the member completed a request for withdrawal and that proper taxes were withheld. Refunds for excess contributions are subject to federal and possibly state tax withholding unless the member elects otherwise. The refund payment of excess contributions is expected to be made in a single sum and the election applies only to that payment. Refund payments are subject to Federal income tax withholding of 10% and a California State income tax withholding of 1% of the gross payment or 10% of the federal holding, unless the member elects to not have the withholdings apply.

During our analysis, one (1) of fifteen (15) members that had requested a withdrawal had an incorrect amount of taxes withheld. It was noted that due to incorrect instructions by FCERA staff \$12.31 in State taxes was not deducted from the member's payments.

Further research by the Plan noted that 3,254 members were affected by this issue. No further action was required by FCERA.

Recommendation

We recommend that FCERA review all instructions before they are applied to ensure the accuracy of all payments to former members.

Views of Responsible Officials and Planned Corrective Action

We agree with the finding. Please note this was a one-time project related to the member's refunds in 2007 as a result of a system wide correction related to the inclusion of the unfunded actuarial accrued liability in the employee contribution rates. The instructions provided to the bank at the time were incorrect and we do not anticipate this error recurring.

II. DISPOSITION OF PRIOR YEAR COMMENTS

Condition Number 1 – Private Markets / Alternative Investments

During our analysis of private markets/alternative investments we noted that recalculation of these management fees are not performed by FCERA staff prior to investment manager deducting these fees from the respective manager's investment account.

Recommendation

Recalculation of management fees should be performed by FCERA staff and consideration should be given to the current ownership percentages during the recalculation process.

Views of Responsible Officials and Planned Corrective Action

Please note FCERA recalculates management fees on all private markets/alternative investments as soon as the information becomes available, usually about three to four months after the close of the quarter and after the fees have been deducted from the manager's investment account.

Current Year Status

No similar finding in the current year.

Condition Number 2 – Decedent Testing

During our testing of deceased members we reviewed certified correspondence mailed by FCERA to a member attempting to verify their vitality. During our review we noted that FCERA received the certification receipt signed by an individual other than the member accepting delivery of the letter. FCERA flagged this correspondence, ceased making electronic payments to the member, and began issuing their monthly benefit by mail. Further review of the member's file indicated that FCERA stopped the electronic payments to the member and stored the checks in FCERA's vault therefore preventing any of the ten checks issued to the member from being cashed. There have been no further attempts to correspond with the member since the original correspondence was returned.

Recommendation

FCERA should follow current policy which states that only one paper check should be held by FCERA and suspend any further payment until such time as the member comes forward.

Views of Responsible Officials and Planned Corrective Action

FCERA agrees with the recommendation. Additional training has been provided to ensure that staff understands and adheres to the policy.

Current Year Status

No similar finding in the current year.

Condition Number 3 – Outstanding Checks

During our testing of outstanding benefit payments we noted the following issues:

- FCERA did not inform a beneficiary on a timely basis that they had funds remaining on account in the amount of \$296.53 related to a deceased member's lump sum payment. This specific check had been outstanding for seven months prior to FCERA looking into the matter.
- Funds related to a stop payment request and reissuance of a benefit check were not processed by State Street in a timely manner and funds related to the original benefit payment were not credited to the FCERA Trust Account.
- Sample of outstanding benefit payments contained a payment to a beneficiary which we were unable to identify as such due to Pensions not having the capacity to store information on beneficiaries of deceased beneficiaries. Additionally, due to system limitations at the bank processing benefit payments, FCERA is unable to search for payees without having the exact payee name. It was ultimately determined that the check was issued to the beneficiary of a deceased beneficiary.

Recommendation

We recommend FCERA develop a policy related to outstanding checks to ensure benefits are issued to eligible members and their beneficiaries. This policy should include a timely review by a supervisor to ensure stop payments and reissuance of checks are processed in a timely basis and that State Street properly credits the Trust Account with any benefit payments cancelled by FCERA.

Views of Responsible Officials and Planned Corrective Action

FCERA agrees with the recommendation as it relates to the events identified in the first and third bullet points above. However, please note that FCERA believes that all reasonable steps were taken to have the refund noted in the second bullet point processed by the bank. Staff has a series of e-mails and phone calls over a period of nine months documenting their attempts to have the funds credited back to FCERA's accounts.

FCERA will draft and implement a policy related to outstanding checks. FCERA expects the policy to be presented to the Board of Retirement for approval during the second quarter of calendar year 2010. In addition, FCERA will work with the disbursement bank to establish a method of relating lump sum distributions for final days to the deceased member or beneficiary.

Current Year Status

The procedures for processing outstanding checks have been formalized and were adopted by the Board of Retirement at the December 1, 2010 meeting.

Condition Number 4 – Cost Value

As part of our analysis of investments a reconciliation of cost and market values is performed between values on record at FCERA and with the individual managers and custodians, if applicable. As part of this analysis, we noted that the cost on record by FCERA for one manager did not agree to the cost value reported by the manager in their confirmation reply requested as part of our audit. During our review of FCERA in-house cost and market reconciliations we noted that FCERA had not received the cost value report from the manager since inception and as a result their cost value differed from the managers cost value. The difference in cost was a result of differences in classification of certain transactions by FCERA and the manager. As part of our analysis we confirmed that FCERA's overall market value and unrealized gains and losses as of 6/30/09 were fairly stated based on review of the manager's confirmation reply and records provided by FCERA.

Recommendation

FCERA should request both cost and market value reconciliations from all investment managers and reconcile these reports to the reconciliations prepared by FCERA. Any differences should be reviewed and addressed in a timely manner.

Views of Responsible Officials and Planned Corrective Action

FCERA agrees with this finding and has already begun requesting the reports necessary to identify any variances between cost and market for non-custody and/or private markets managers. Please note however, for all other investment managers custodied at State Street, FCERA performs a monthly reconciliation to the costs and market values at State Street.

Current Year Status

No similar finding in the current year.