



**BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER**  
**Certified Public Accountants**

**Main Office**  
4200 Truxtun Ave., Suite 300  
Bakersfield, California 93309  
Tel 661.324.4971 Fax 661.324.4997  
e-mail: [bainfo@bacpas.com](mailto:bainfo@bacpas.com)

**Shafter Office**  
560 Central Avenue  
Shafter, California 93263  
Tel 661.746.2145 Fax 661.746.1218

Peter C. Brown, CPA  
Burton H. Armstrong, CPA, MST  
Andrew J. Paulden, CPA  
Harvey J. McCown, CPA  
Steven R. Starbuck, CPA  
Aileen K. Keeter, CPA  
Chris M. Thornburgh, CPA  
Eric H. Xin, CPA, MBA

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

Lynn R. Krausse, CPA, MST  
Rosalva Flores, CPA  
Connie M. Perez, CPA  
Sharon Jones, CPA, MST  
Diana H. Branthoover, CPA  
Thomas M. Young, CPA  
Alicia Montgomery, CPA, MBA  
Matthew Gilligan, CPA  
Ryan S. Johnson, CPA  
Hanna J. Sheppard, CPA  
Michael C. Olivares, CPA  
Natalie M. Arduain, CPA  
Ryan J. Nielsen, CPA  
Amanda Fedewa, CPA  
Jian Ou-Yang, CPA  
Jialan Su, CPA

To the Board of Retirement of  
Fresno County Employees' Retirement Association

We have audited the financial statements of the Fresno County Employees' Retirement Association (FCERA) for the year ended June 30, 2006 and have issued our report thereon dated December 8, 2006. In planning and performing our audit of the financial statements of FCERA, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

As a result of our audit, we noted certain agreed-upon findings. These findings and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other efficiencies and are summarized as follows:

Current Year Findings & Recommendations

**Agreed Upon Condition Number 1-Wire Transfers**

As part of our cash analysis, we select a sample of wire transfers made during the year to test compliance with a formal policy for wire transfers. During this analysis we found that FCERA currently does not have a formal policy governing wire transfers.

Recommendation

We recommend that FCERA implement a board approved written policy. This policy should include individuals who are approved to initiate the transfer, documentation requirements for initiation, individuals that have been approved to confirm this initiation, correspondence with the financial institution receiving the transfer, support necessary to document the completion of the transfer, and the personnel approved to verify that the transfer was complete. Initiation, approval and verification should all be performed by separate individuals.

Management Response

FCERA agrees with this recommendation. Draft procedures will be formulated for presentation to the Board of Retirement for approval during the third quarter of fiscal year end June 30, 2007.

### **Agreed Upon Condition Number 2-Capital Assets**

During our analysis of capital assets we noted the lack of a written capitalization policy establishing a threshold amount for the capitalization of assets. Due to the lack of consistent methodology for capitalization, we were unable to test the completeness and accuracy of FCERA's detailed capital asset summary. Furthermore, we were unable to determine if certain items expensed as repairs and maintenance should have been capitalized.

#### **Recommendation**

FCERA should implement a written policy regarding the capitalization of capital assets.

#### **Management Response**

FCERA agrees with this recommendation. FCERA has been following the policies of the County of Fresno, but will prepare draft procedures for presentation to the Board of Retirement for approval during the third quarter of fiscal year end June 30, 2007.

### **Agreed Upon Condition Number 3-Securities Lending Collateral**

During our testing of securities lending cash collateral we noted that FCERA has no procedures in place to guarantee that the maintenance margins are meeting the stated requirements, as noted in the securities lending contract with Credit Suisse. We noted that there were two managers that had not maintained a proper maintenance margin percentage. Intech, who holds U.S. equity securities, was required contractually to maintain a maintenance margin of 102%, but an individual security fell to a maintenance margin of 95.7%. Also, a security held by TCW, was under the required maintenance ratio margin of 102%, as two individual securities were at 101.85%.

#### **Recommendation**

FCERA should implement procedures that require the review of these maintenance margins on a monthly or quarterly basis to make certain that they are in compliance with their contractual obligations. FCERA should also implement procedures whereby Credit Suisse notifies FCERA when any individual loan is not in compliance.

#### **Management Response**

FCERA agrees with this recommendation. Draft procedures will be presented to the Board of Retirement for approval during the third quarter of fiscal year end June 30, 2007.

### **Agreed Upon Condition Number 4-Reconciliation of Investments**

During our analysis of investments, we noted that FCERA does not obtain reconciliations between individual investment managers and their custodian, Fifth Third Bank. As a result we noted that FCERA had a different cost basis for a number of investments from those reported by Fifth Third Bank. Additionally, we found that Fifth Third Bank classifies certain types of investments differently from the individual investment managers, which results in an incorrect classification for financial statement purposes as FCERA uses Fifth Third Bank reports for recording to their general ledger.

#### **Recommendation**

Reconciliations between the information reported by Fifth Third Bank and the information reported by the individual managers should be prepared on a monthly basis. The reconciling items should be fully explained and reviewed for propriety. FCERA staff should review these reconciliations for accuracy. We also recommend that FCERA require Fifth Third Bank and the individual investment managers to record cost basis consistently.

### Management Response

FCERA partially agrees with this recommendation in that formal procedures are needed. However, please note FCERA does receive monthly reconciliations prepared by Fifth Third Bank, but we do not have procedures in place to monitor the timely receipt of the reconciliations. Thus FCERA did not react when reconciliations were not received for all managers. FCERA has since established a checklist to ensure the timely receipt of reconciliations. In addition, procedures will be prepared to document the review and timely follow-up of reconciliations and reconciling items. The draft procedures will be presented to the Board of Retirement for approval during the fourth quarter of fiscal year end June 30, 2007.

### **Agreed Upon Condition Number 5-Private Markets and Alternative Investments**

During our analysis of investments we found that all changes to the private market and alternative investment accounts were being recorded to the Unrealized Gain/Loss account. FCERA was not properly identifying all management fees and realized gains for these investments and therefore not recording those items to the appropriate accounts.

### Recommendation

We recommend that FCERA request that these managers provide them with detailed statements, which will show them the components making up the change to these accounts. This will allow them to properly record all transactions to the appropriate account.

### Management Response

FCERA agrees with this recommendation and will request the necessary information from the managers to properly record the transactions.

### **Agreed Upon Condition Number 6-Form ADV**

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 applicant's business, including basic operations, services offered, fees charged, types of clients advised, education and business backgrounds of associates and other business activities of the applicant. Form ADV-S is an annual update supplement to Form ADV required to be filed by persons registered as investment advisers with the Commission. It must be filed not later than 90 days after the end of the registrant's fiscal year.

While 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 on a yearly basis to ensure that management is aware of all soft dollar arrangements between their Investment Managers and the brokers, and to ensure the Investment Managers are in compliance with their reporting requirements.

### Management Response

FCERA agrees with this recommendation. All ADV Forms received by FCERA are reviewed for unusual items. However, FCERA will implement more formal procedures to ensure receipt and review of all ADVs and document their review for compliance with their reporting requirements.

### **Agreed Upon Condition Number 7-Manager Internal Control Reports (SAS 70)**

FCERA does not require that investment managers provide copies of their statement on auditing standard (SAS 70), which reports on the processing of transactions by service organizations.

#### **Recommendation**

Investment managers should provide FCERA with their annual SAS 70 reports. FCERA should review these for any noted deficiencies. If necessary, investment managers should respond to FCERA regarding such deficiencies.

#### **Management Response**

FCERA agrees with this recommendation and will request the annual SAS 70 reports from the managers.

### **Agreed Upon Condition Number 8-Participant Data**

During our testing of active participants, we noted of the 60 member's tested, one member was erroneously categorized as active due to clerical oversight and two members were erroneously categorized as active.

During our actuary testing of retiree participants, we noted of the 10 members tested one members' Gross Pension Payment and Health Benefit was incorrectly stated on the response to the confirmation request due to old cost of living data (from April 2003) being included in the extract file provided to the actuary for the year ended June 30, 2005.

#### **Recommendation**

It is critical that FCERA take the appropriate steps to ensure that all members are classified in the appropriate category as this information is used by the actuary for their annual valuation. Members should be tested on a sample basis to ensure that they are accounted for in the correct category. FCERA should confirm that the actuary has the most current information prior to commencing their valuation.

FCERA should test a sample of retired participants to ensure that their Gross Pension Payment and Health Benefit amounts are up to date. Any resulting differences should be discussed with the actuary and a determination should be made of the possible effect to the actuary report.

#### **Management Response**

FCERA agrees that member data should be accurate and makes every effort to keep it accurate. However, during major system overhauls, including benefit modifications that have been made, data imports have fallen behind schedule resulting in temporary inaccuracies. Please note, the delay in data imports does not impact the accuracy of benefits paid to members because retirement payroll is calculated outside of the system.

With regard to the retiree information, FCERA staff noted that there was not an active benefit payment screen associated with this member. We have modified our procedures to ensure that active benefit payment screens are created timely to prevent reoccurrence of this issue.

### **Agreed Upon Condition Number 9-Appraisals for Fresno Station and Administration Building**

During our analysis of Investments and Capital Assets, we requested copies of the most current appraisals for both the Fresno Station and the Administration building. At the time of fieldwork, appraisals had not been performed of either building. FCERA is currently in the process of a lot split that will divide the lot between the Fresno Station and the Administration building. Their plans are to perform an appraisal of each property at that time.

Recommendation

FCERA should implement a policy requiring, at a minimum, a yearly appraisal of their properties.

Management Response

FCERA partially agrees. While FCERA agrees that an appraisal is warranted, we believe that bi-annual appraisals will be sufficient, unless local market conditions indicate that a more frequent appraisal is required. Draft procedures will be presented to the Board of Retirement for approval during the fourth quarter of fiscal year end June 30, 2007.

Status of Prior Year Findings & Recommendations

None.

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This information is intended solely for the use of the Board of Retirement and management of FCERA and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURG & KEETER  
ACCOUNTANCY CORPORATION



By: Andrew J. Paulden

Bakersfield, California  
December 8, 2006