FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Management Letter and Required Communications

For the Fiscal Year Ended
June 30, 2003

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
MANAGEMENT LETTER AND REQUIRED COMMUNICATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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

In planning and performing our audit of the financial statements of the Fresno County Employees' Retirement Association, (Association) for the fiscal year ended June 30, 2003, we considered the Association's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on internal control.

During our audit for the fiscal year ended June 30, 2003, we became aware of matters that are opportunities for strengthening internal controls and operational efficiency. The memorandum that accompanies the letter summarizes our comments and suggestions.

We would like to thank the Association's management and other personnel for the courtesy and cooperation extended to us during the course of the audit.

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

Very truly yours,

Macias, Gini & Co, LLP
Certified Public Accountants

Fresno, California
December 5, 2003

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
REQUIRED COMMUNICATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Professional auditing standards require auditors to communicate with the audit committee, or its equivalent, on a number of subjects. The following information satisfies these requirements, and is solely for use of the Board of Retirement and Association management.

I. The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated September 5, 2003, our responsibility as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Association. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we performed tests of the Association's compliance with certain provisions of laws, regulations and contracts. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

II. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Association are described in Note 2 to the basic financial statements. No new accounting standards were implemented by the Association in the current year.

We noted no transactions entered into by the Association during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

III. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on knowledge and experience about past and current events and 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. Due to the nature of the operations, not many items are subject to estimation.

We evaluated the key factors and assumptions used to develop the estimate in determining that they are reasonable in relation to the basic financial statements taken as a whole.

IV. Audit Adjustments

For the purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Authority's financial reporting process (that is, cause future financial statements to be materially misstated). There were no audit adjustments, in our judgment, that indicate matters that could have a significant effect on the Association's financial reporting process.

We are also required to inform you about uncorrected misstatements aggregated by us during the current engagement that were determined by management to be immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. There was one uncorrected misstatement to the financial statements related to the improper accounting for a capital lease. Proper accounting would have included capitalizing the assets, depreciating the assets over their useful lives, recognizing the associated liability and the related reduction in the liability as payments are made.

V. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter 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.

VI. Consultations with Other 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 Association's basic 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.

VII. Issues Discussed with Management Prior to Our Retention as Independent Auditors

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 Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention as auditors.

VIII. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
CURRENT YEAR MANAGEMENT COMMENTS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NONCOMPLIANCE WITH INVESTMENT POLICY FOR CASH AND CASH EQUIVALENTS

The Association was out of compliance with the cash category of their asset allocation investment policy. This is due to the Investment Managers having cash holdings guidelines that allow for a higher percentage of the investments they manage to be held as cash than those allowed per the asset allocation of the Association investment policy. Typically, Investment Managers may invest or hold a 5 – 10% range of the total investment holdings in cash while the Association's investment policy only allows for 2%.

We have noted that as of September 2003, the investment policy has been revised resulting in the cash category percentage being increased. This increase is sufficient that the Association would have been in compliance with the policy had it been in effect at year-end.

Management Response: We plan to provide the Board with asset allocation balances on a quarterly basis, along with the quarterly financial statements in the future. We believe that this will enable FCERA to monitor compliance with the investment policy in a more timely manner.

NONCOMPLIANCE WITH INVESTMENT POLICY FOR DOMESTIC STOCKS

The Association was out of compliance with the domestic stock category of their asset allocation investment policy. The Association relies on timely reports from investment managers to alert them to any instance of noncompliance. The Association at that time determines if the instance is allowable under the circumstances or must be remedied. In addition, we noted that the revisions to the investment policy approved in September 2003 also increased the allowable percentage of domestic stocks that can be held per the asset allocation.

As noted above, the modifications to the investment policy made in September 2003 appear to have been taken to resolve this matter subsequent to the end of the year, as the domestic stocks category percentage was also increased. We recommend the Association continue to actively monitor their investment managers and investigate any instances of noncompliance in a timely fashion.

Management Response: We plan to provide the Board with asset allocation balances on a quarterly basis, along with the quarterly financial statements in the future. We believe that this will enable FCERA to monitor compliance with the investment policy in a more timely manner.

UNRECORDED CAPITAL LEASE

The Association recorded its phone system lease at Fresno Station as an operating lease rather than a capital lease in accordance with generally accepted accounting principles (GAAP) as defined under FASB Statement #13 and the Governmental Accounting and Financial Reporting Standards (GASB Codification) Code Section L20.109. Treatment of this lease as an operating lease caused assets and liabilities to be understated.

We recommend that the Association closely analyze each of its leases to ensure proper accounting according to GAAP.

Management Response: While we agree with the recommendation in theory, we believe that a capital lease was not consummated at the close of escrow since we do not have a signed contract between the Board and prior owner for the phone system. However, we will research the contract and the files to determine a final resolution to this issue. If it is determined that the Board intended to sign a capital lease, then we will consummate the appropriate agreement and record the lease as recommended. We will keep you informed of our research.

COMPLEXITY OF TRIAL BALANCE

The trial balance includes account detail that is unnecessary for Association management and financial reporting purposes. In addition, certain account balances are summarized and required to be split out for financial reporting purposes.

We recommend that the Association review their trial balance when installing their new accounting software to ensure account balances are useful for both Association management and financial reporting purposes.

Management Response: We agree with this recommendation. We are in the process of finding a new accounting program and had already determined that fewer accounts and better organization was necessary.

CONSTRUCTION IN PROGRESS NOT REPORTED AS CAPITAL ASSET

The Association began new construction of a building that they eventually intend to occupy; however, these expenditures were not reported as part of capital assets but as a separate asset unrelated to capital assets. As a result these assets were not included in the capital asset disclosure.

We recommend that as further costs are incurred in construction of this building, the Association include such costs in capital assets as non-depreciable until such time as the project is completed and depreciation of the total cost of the building begins. We further recommend that the Association review expenditures when incurred to ensure they are properly reported and disclosed under the new financial reporting model.

Management Response: We concur with the recommendation and have implemented the changes.

MONTHLY RECONCILIATION OF CASH/PENSIONS

Cash and the Pensions system are reconciled to the accounting system twice a year, which does not lend itself to maintaining account balances that are accurate and up-to-date.

We recommend that the Association perform monthly reconciliations of cash and the Pensions system to ensure accounts are current and accurate and to also assist in timely financials statement being prepared for both internal and financial reporting purposes. We further recommend that in order to motivate the Association to keep up-to-date on accounting procedures that quarterly financials be presented to the Board for review and acceptance. This will ensure that these reconciliations are being performed in a timely fashion.

Management Response: We concur with the recommendation and have implemented the changes.

POLICY AND PROCEDURES WRITE-UP

There is no consistency or uniformity in the individuals that perform the payroll or accounting functions due to inadequate staffing. Currently, whichever Retirement staff becomes available performs the payroll or accounting function as needed. This condition is largely due to the understaffing of the department and having the department perform payroll functions for retirees as well as retirement accounting functions.

While the Association is creating a new Payroll Unit and reassigning its Accounting staff, we recommend that management prepare written policies and procedures for each of the accounting positions, which defines staff responsibilities and how to most efficiently accomplish tasks. This will also allow the Association to determine if responsibilities are properly spread between Accounting positions.

Management Response: We concur with the recommendation. Most staff have informal procedures to document the work that they are responsible for completing. We will work to formalize the procedures and ensure that all sensitive functions have up-to-date procedures.

INPUT OF REINSTATED MEMBERS BY COUNTY PERSONNEL DEPARTMENT

The individual County departments currently remit the documentation for their reinstated employees to Personnel for input into the Payroll system. The Personnel department makes manual input errors, which Retirement does not find out about until the affected members contact them directly.

We recommend that reinstatement requests be sent directly to Retirement as well as to Personnel so Retirement can ensure that reinstated members are properly input into the system.

Management Response: We concur with this recommendation and will work with the County of Fresno to implement it.