

COUNTY OF FRESNO

DEPARTMENT OF AUDITOR-CONTROLLER

INTERNAL AUDIT DIVISION

EMPLOYEES' RETIREMENT ASSOCIATION

ANNUAL AUDIT

FOR YEAR ENDED DECEMBER 31, 1972

November 28, 1973

L. D. Jernagan
Auditor-Controller
Hall of Records
Fresno, California

Dear Mr. Jernagan:

The audit report of the Fresno County Employees Retirement Association for the year ending December 31, 1972, has several recommendations. Recommendation No. 2 suggests that the Retirement Board establish a percentage of price at which stock should be sold to minimize losses.

The Fresno County Employees Retirement Board does not agree with this recommendation. The Fresno County Treasurer, his staff, and the Investment Advisor, Henderson-Boston Company, agree that this approach should not be implemented for the Fresno County Retirement System.

Very truly yours,

J. B. MALMSTROM
Fresno County Treasurer

JBM: jml

C
O
P
Y



COUNTY OF FRESNO
OFFICE OF THE AUDITOR-CONTROLLER
ROOM 102, HALL OF RECORDS
P. O. BOX 1247
FRESNO, CALIFORNIA 93715

LAWRENCE D. JERNAGAN, C.I.A.
AUDITOR-CONTROLLER

TED C. NIX
ASSISTANT AUDITOR-CONTROLLER

November 2, 1973

Mr. J. B. Malmstrom
Treasurer - Tax Collector
County of Fresno
Hall of Records
Fresno, California

Dear Mr. Malmstrom:

SUBJECT: Accounting for Bond Swaps

This will confirm our previous conversations concerning the accounting treatment for bond swaps. We, of course, cannot approve of the accounting procedures whereby the loss on the exchange of an old bond is offset against the gain on the new bond.

However, if such a procedure is to be followed by the Retirement Board, we would recommend that the following guidelines be established:


1. That it be a true bond swap. For example, it should be bonds for bonds, and not stocks for bonds.
2. The swap should be made simultaneously or within a short period of time of each other.
3. The swap must materially upgrade the quality of the Retirement Fund.
4. The bond swap should be of "substantially identical" bonds.

These procedures are merely suggested guidelines to be used.

It should be understood that if these procedures are followed by the Retirement Board, we will continue to make an exception in the Audit Report.

Your cooperation in the above will be greatly appreciated.

Very truly yours,


L. D. JERNAGAN
AUDITOR-CONTROLLER

LDJ:kl