

BROWN ARMSTRONG

Certified Public Accountants

Fresno County Employees' Retirement Association
Audit Committee presentation of the June 30, 2011 audit results
By: Connie Perez, CPA, Brooke DeCuir-Baird, CPA and
Eric Berman, MSA, CPA
Brown Armstrong Accountancy Corporation
December 21, 2011

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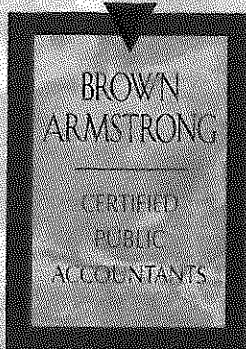
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Audit Committee and Board of Retirement
Fresno County Employees' Retirement Association
Fresno, California

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In planning and performing our audit of the financial statements of Fresno County Employees' Retirement Association (FCERA) as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered FCERA's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FCERA'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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of FCERA'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 significant deficiencies or material weaknesses, and therefore there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether FCERA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of FCERA in a separate letter dated December 14, 2011.



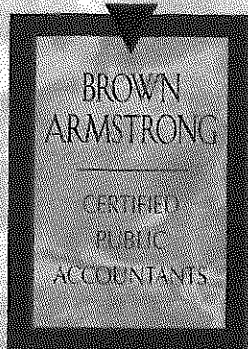
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This report is intended solely for the information and use of the Audit Committee, Board of Retirement and management of FCERA, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in cursive script, appearing to read "Connie Perez", with a stylized flourish at the end.

Bakersfield, California
December 14, 2011



BROWN ARMSTRONG

Certified Public Accountants

REQUIRED COMMUNICATION TO THE AUDIT COMMITTEE IN ACCORDANCE WITH PROFESSIONAL STANDARDS

Audit Committee and Board of Retirement
Fresno County Employees' Retirement Association
Fresno, California

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We have audited the financial statements of the Fresno County Employees' Retirement Association (FCERA) for the year ended June 30, 2011, and have issued our report thereon dated December 14, 2011. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. 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 FCERA are described in Note 2 to the financial statements. We noted no transactions entered into by FCERA during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 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. The most sensitive estimate affecting the financial statements was the fair market value of investments.

Management's estimate of the fair market value of investments is derived by various methods as detailed in Note 2 to the financial statements. We evaluated the key factors and assumptions used to develop the fair market value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no sensitive disclosures affecting the financial statements.

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 known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not note any material misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as 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 December 14, 2011.

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 FCERA 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

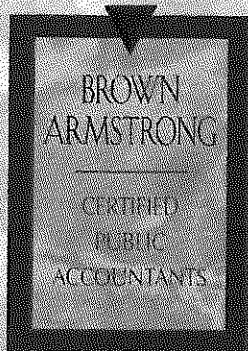
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as FCERA's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not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

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION


By: Connie M. Perez

Bakersfield, California
December 14, 2011



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Audit Committee and Board of Retirement
Fresno County Employees' Retirement Association
Fresno, California

We have audited the accompanying Statement of Plan Net Assets of the Fresno County Employees' Retirement Association (FCERA) as of June 30, 2011 and 2010, and the related Statement of Changes in Plan Net Assets for the years then ended. These financial statements are the responsibility of FCERA management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FCERA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of FCERA as of June 30, 2011 and 2010, and its changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress and employer contributions be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financials report for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The Other Supplementary Information and the Introductory, Investment, Actuarial and Statistical sections as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements. The Other Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory, Investment, Actuarial and Statistical sections have not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2011, on our consideration of FCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

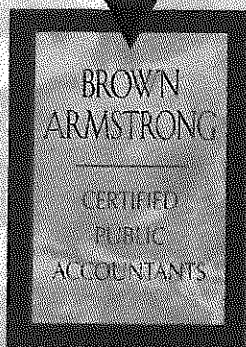
A handwritten signature in cursive script, appearing to read "Connie Perez", is written over the printed name of the firm.

Bakersfield, California
December 14, 2011

**FRESNO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

REPORT TO MANAGEMENT

FOR THE YEAR ENDED JUNE 30, 2011



BROWN ARMSTRONG

Certified Public Accountants

December 14, 2011

Audit Committee and Board of Retirement
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Dear Committee and Board Members:

In planning and performing our audit for the Fresno County Employees' Retirement Association (FCERA) for the year ended June 30, 2011, 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

By: Connie M. Perez



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**FRESNO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION**

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I. CURRENT YEAR OBSERVATIONS AND RECOMMENDATIONS

Condition Number 1 – Special District Salary Error

To ensure that employee pensionable payroll is properly calculated and provided to the retirement association, we selected a sample of twenty-five (25) participants from the various participating employers and recalculated their pensionable salary for a selected payroll period. During our testing, we noted three (3) of the five (5) participants selected from Fresno Madera Agency on Aging (FMAA) and one (1) of the five (5) participants selected from Fresno Mosquito and Vector Control District (FMVCD) had incorrect pensionable salaries entered into FCERA's pension system. Per further discussion with management, it was noted that updated salary information was provided to FCERA for the three (3) FMAA employees, but due to a change in staffing at FCERA this information was not updated in FCERA's pension system. With regards to the one (1) FMVCD employee, it was noted that the employer did not properly notify FCERA of the salary change.

Recommendation

FCERA should provide FCERA staff with adequate training regarding payroll procedures, reinforcing the importance of entering correct pensionable salaries into the pension system. It is also recommended that FCERA review its records and confirm all salary changes within the last year with the participating employers, along with the timing of such changes, and emphasize the need for these such changes to be communicated to FCERA in a timely manner.

Views of Responsible Officials and Planned Corrective Action

Previous staff training emphasized accuracy of payroll records being maintained. We have provided additional training on accuracy and timeliness of payroll records being maintained. With the implementation of the new pension administration system, these types of errors will be reduced.

Condition Number 2 – Missing Member Files

During our recalculation of forty (40) active participants' current year contributions, it was noted that FCERA was unable to locate one (1) of the member's personnel files. Per discussion with management, it was noted that FCERA was aware of the missing file prior to our 2011 fiscal year-end audit, but did not perform the necessary procedures to obtain the adequate documentation for the participant's file. Due to the lack of documentation, we were unable to verify and trace relevant demographic data to source documents.

Recommendation

We recommend that FCERA perform the necessary procedures to obtain adequate documentation for the participant's personnel file immediately.

Views of Responsible Officials and Planned Corrective Action

FCERA is aware that files were lost during the move to our present location. As files are identified FCERA has trained the staff to obtain adequate documentation for the member's file either from the Plan Sponsor or the member. With the implementation of the electronic data imaging system, lost files will no longer be an issue.

II. DISPOSITION OF PRIOR YEAR COMMENTS

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.

Current Year Status

No similar item noted in the current year.

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.

Current Year Status

No similar item noted in the current year.

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 Small World, LLC, in September 2010 to provide more timely death reporting. Through Small 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.

Current Year Status

No similar item noted in the current year.

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 (County) 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.

Current Year Status

See condition one (1) in the current year.

Condition Number 5 – Terminated Members

During our testing of current year terminations from FCERA, 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 FCERA 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.

Current Year Status

No similar item noted in the current year.