

# BROWN ARMSTRONG

*Certified Public Accountants*

***Fresno County Employees' Retirement Association***  
**Board of Retirement Presentation**  
**of the June 30, 2016 audit results**  
**By: Rosalva Flores, CPA, and Ashley Casey, CPA**  
**Brown Armstrong Accountancy Corporation**  
**December 21, 2016**

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1. Met on December 14, 2016, with Audit Committee and Discussed:
  - a. Scope of audit work
  - b. The audit process
  - c. Significant risk and audit areas
  - d. Audit Committee requests from entrance meeting
  - e. Audit reports
  - f. Comprehensive Annual Financial Report
2. Audit Reports
  - a. Independent Auditor's Report (opinion) on financial statements – unmodified (“clean”) opinion
  - b. 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*
  - c. Required Communication to the Audit Committee and Board of Retirement in Accordance with Professional Standards – SAS 114
  - d. Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting – Management Letter
3. Questions and/or Comments?

**FRESNO COUNTY EMPLOYEES'  
RETIREMENT ASSOCIATION**

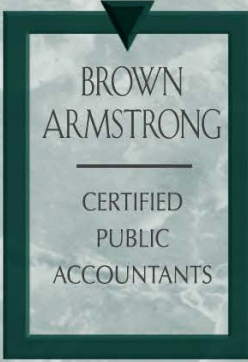
**REPORT TO THE AUDIT COMMITTEE  
AND BOARD OF RETIREMENT**

**FOR THE FISCAL YEAR  
ENDED JUNE 30, 2016**

**FRESNO COUNTY EMPLOYEES'  
RETIREMENT ASSOCIATION**

**TABLE OF CONTENTS**

	<u>Page</u>
I. 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 <i>Government Auditing Standards</i> .....	1
II. Required Communication to the Audit Committee and Board of Retirement in Accordance with Professional Standards (SAS 114).....	3
III. Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting (Management Letter) .....	6



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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**

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

We have audited, in accordance with the 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, the financial statements of the Fresno County Employees' Retirement Association (FCERA), as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise FCERA's basic financial statements, and have issued our report thereon dated December 9, 2016.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered FCERA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FCERA's internal control. Accordingly, we do not express 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 a 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **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 titled Agreed Upon Conditions Report Designed to Increase Efficiency, Internal Controls, and/or Financial Reporting dated December 9, 2016.

## **Purpose of this Report**

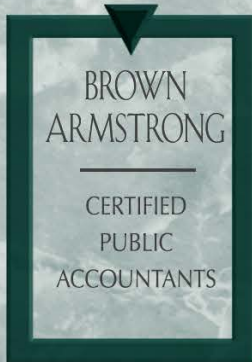
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FCERA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FCERA's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
December 9, 2016





# BROWN ARMSTRONG

*Certified Public Accountants*

## **REQUIRED COMMUNICATION TO THE AUDIT COMMITTEE AND BOARD OF RETIREMENT IN ACCORDANCE WITH PROFESSIONAL STANDARDS (SAS 114)**

To the Audit Committee and Board of Retirement of  
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 fiscal year ended June 30, 2016, and have issued our report thereon dated December 9, 2016. 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. We have communicated such information in our engagement letter to you dated May 11, 2016. 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. As discussed in Note 2 to the financial statements, in 2016, FCERA adopted the following Governmental Accounting Standards Board (GASB) Statements:

- GASB Statement No. 72, *Fair Value Measurement and Application*,
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement No. 67 and No. 68*,
- GASB Statement No. 76, *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*;
- and GASB Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*.

We noted no transactions entered into by FCERA during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 estimates affecting the financial statements were:

- Management's estimate of the fair 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 estimate of the fair value of investments in determining that it is reasonable in relation to the financial statements taken as a whole.
- The contribution amounts and net pension liability which are based on the actuarially-presumed interest rate and assumptions. We evaluated the key factors and assumptions used to develop the estimates of the contribution amounts and net pension liability in determining that they are 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. The most sensitive disclosures affecting the financial statements were:

- The disclosures for deposits and investments in Notes 2 and 3 to the financial statements, Summary of Significant Accounting Policies and Deposits and Investments, respectively, were derived from FCERA's investment policy. Management's estimate of the fair value of investments was derived by various methods as detailed in the notes to the basic financial statements.
- Additionally, the disclosures related to the funding policies, net pension liability, and actuarial methods and assumptions in Note 2 Summary of Significant Accounting Policies, Note 6 Contributions and Reserves, and Note 7 Actuarial Valuations, were derived from the actuarial valuations, which involved estimates of the value of reported amounts and probabilities about the occurrence of events far into the future.

#### *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 clearly trivial, and communicate them to the appropriate level of management. We did not identify any misstatements as a result of our audit procedures.

#### *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 9, 2016.

#### *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 FCERA'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.

#### *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.

*Other Matters*

We applied certain limited procedures to the Management's Discussion and Analysis, Schedule of Employer Contributions, Schedule of Investment Returns, Actuarial Valuation Methods and Assumptions, and Schedule of Changes in Net Pension Liability and Related Ratios, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Schedule of Administrative Expenditures, Administrative Budget Analysis, Schedule of Information Technology Expenditures, Schedule of Investment Expenditures, and Schedule of Payments to Consultants, which accompany the financial statements but are not RSI. With respect to this other supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engagement to report on the introductory, investment, actuarial, and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

**Restricted on Use**

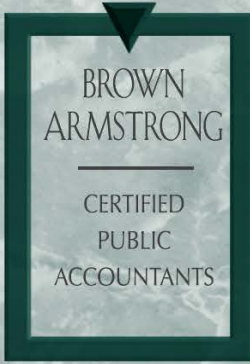
This report is intended solely for the information and use of the Audit Committee, Board of Retirement, and management of FCERA, and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
December 9, 2016





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*Certified Public Accountants*

## **AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING (MANAGEMENT LETTER)**

To the Audit Committee and Board of Retirement of  
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) for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America; we considered FCERA's internal control structure 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. Accordingly, we do not express 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we considered to be material weaknesses.

However, during our audit we became aware of one matter that is an opportunity for strengthening internal controls and operating efficiency. The recommendation that is listed in this report summarizes our comment and suggestion regarding this matter.

We will review the status of this comment during our next audit engagement. We have already discussed the comment and suggestion with various FCERA personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

## **I. CURRENT YEAR CONDITIONS AND RECOMMENDATIONS**

### **Condition Number 2016-1 – Pension System**

On January 1, 2013, Tier V was mandated by the State and implemented by FCERA in April 2013 retroactively to January 2013. FCERA was in the process of implementing a new pension administration system and elected to not update the existing pension administration system to accommodate the Tier V requirements. As a result, FCERA's posting of payroll transmittal imports into the pension system that tracks participant's salary and contributions were delayed since December 31, 2012. It was determined the new pension system, Arrivos, would be programmed, tested, and used to implement Tier V. During the 2013 fiscal year, FCERA implemented manual procedures for processing withdrawals and retirements which will need to be recorded and verified once the new pension system's programming and implementation is finished.

We noted that the Arrivos system went live during the 2015-16 fiscal year. FCERA utilized the system for all active participant data; however, the benefit payments module was not finalized until June 2016. Thus, the plan continued to rely on manual calculations until the benefit payments module in Arrivos was finalized. Since the information recorded in the pension system is used as the source for updating the member data to be used by FCERA staff for calculation of retirement and withdrawal of contributions, failure to keep accurate member data might result in over (under) payments of benefits.

### **Recommendations**

Once programming and implementation for the new pension system is completed and member information can be imported into the system, we recommend FCERA re-calculate all withdrawal of contributions, new retirements, and new pension rates implemented since January 1, 2013.

### **Views of Responsible Officials and Planned Corrective Action**

The Payroll Unit has recalculated the withdrawal of contributions from June 30, 2012, to November 2014. The recalculation of new retirements has been started by the Benefits Unit. The Specialists have prioritized the adjustments, processing the adjustments that have a large dollar or hour amount first. This prioritization will change each month, moving the next highest dollar or hour amount up. The last adjustments will be for the reserve funding, as these do not impact the retirees benefit payment. The Accounting Unit is reviewing and will be testing the accuracy of the reserve data outputs from Arrivos. FCERA is still advancing this project and expects to be completed in Fiscal Year 2018. The tables for all pension rates have been reviewed.

## **II. DISPOSITION OF PRIOR YEAR CONDITIONS AND RECCOMENDATIONS**

### **Condition Number 2015-1 – Pension System**

On January 1, 2013, Tier V was mandated by the State and implemented by FCERA in April 2013 retroactively to January 2013. FCERA was in the process of implementing a new pension administration system and elected to not update the existing pension administration system to accommodate the Tier V requirements. As a result, FCERA's posting of payroll transmittal imports into the pension system that tracks participant's salary and contributions were delayed since December 31, 2012. It was determined the new pension system, Arrivos, would be programmed, tested, and used to implement Tier V. During the prior year, FCERA implemented manual procedures for processing withdrawals and retirements which will need to be recorded and verified once the new pension system's programming and implementation is finished.

Since the information recorded in the pension system is used as the source for updating the member data to be used by FCERA staff for calculation of retirement and withdrawal of contributions, failure to keep accurate member data might result in over (under) payments of benefits.

### Recommendations

Once programming and implementation for the new pension system is completed and member information can be imported into the system, we recommend FCERA re-calculate all withdrawal of contributions, new retirements, and new pension rates implemented since January 1, 2013.

### Views of Responsible Officials and Planned Corrective Action

The Payroll Unit has recalculated the withdrawal of contributions from June 30, 2012, to November 2014. The recalculation of new retirements has been started by the Benefits Unit. The coordinators have prioritized the adjustments, processing the adjustments that have a large dollar or hour amount first. This prioritization will change each month, moving the next highest dollar or hour amount up. The last adjustments will be for the reserve funding, as these do not impact the retirees benefit payment. With limited staff, this is expected to be completed in August 2016. The tables for all pension rates have been reviewed.

### Current Year Status

See current year Condition Number 2016-1.

## **Condition Number 2015-2 – Dynamics NAV Financial Reporting System User Access**

During the Information Technology (IT) review of Dynamics NAV financial reporting system, we noted the user accounts needing to post transactions in Dynamics NAV have been granted administrative rights to the application. Administrative rights to the Dynamics NAV application increases the risk that unauthorized activities could occur undetected.

### Recommendations

We recommend FCERA create a new security role in Dynamics NAV which allows users to post transactions, but does not grant administrative access which allows full access to the program including modification, which is not needed for daily procedures. This approach will allow users to have the access they need to complete their job duties, but does not increase the risk for unauthorized activities.

### Views of Responsible Officials and Planned Corrective Action

FCERA has added a second Systems and Procedures Analyst, Kim Zepeda, to directly assist the Accounting Unit with Dynamics NAV related issues. Ms. Zepeda has been tasked with working with FCERA's Dynamics NAV vendor, SCS, to create the appropriate security role in Dynamics NAV, which allows the Accountants to post transactions but prevents SUPER (Administrative) access. Ms. Zepeda will be attended Dynamics NAV specific training in August 2015. Following this training, the new security role will be created, tested, and implemented by December 31, 2015.

### Current Year Status

Implemented.

## **Condition Number 2015-3 – Pension Administration System User Access**

During our review of the newly implemented Pension Administration System, Arrivos, we noted that the assistant retirement administrator, benefits manager, and systems and procedures analysts were assigned to the Arrivos Admin role, which grants the users full access to all system functionality including security administration of user accounts and assigned permissions. Security administration duties should be segregated from processing transaction responsibilities to ensure that unauthorized activities occur undetected.

Recommendations

It is recommended that FCERA consider creating a new role which allows users appropriate access to process transactions without having security administrative access. This approach will ensure that users have the access they need to complete their job duties but does not increase the risk for unauthorized activities.

Views of Responsible Officials and Planned Corrective Action

FCERA will explore options that would further reduce access between administration and transactional activity within the Arrivos Pension Administration System.

Current Year Status

Implemented.

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This information is intended solely for the 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.

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ACCOUNTANCY CORPORATION

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December 9, 2016