

CITY OF SAN JOSE
Public Safety, Finance &
Strategic Support Committee

Independent Accountant's Report on
Applying Agreed-Upon Procedures

As of December 31, 2014

Members of the Public Safety, Finance &
Strategic Support Committee and the
San José City Council
San José, California

Independent Accountant's Report on Applying Agreed-Upon Procedures

We have performed the procedures enumerated below, which were agreed to by the Finance Department of the City of San José (Finance Department) and the Office of the City Auditor of the City of San José (City Auditor), solely to assist these specified parties in evaluating whether the investments of the City of San José (City) within the City's pooled portfolio are in compliance with the City's Investment Policy and Finance Department procedures as of December 31, 2014. The City's management is responsible for the City's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We obtained a copy of the FY 2014-15 Second Quarter Investment Report (Treasurer's Report), as of December 31, 2014 and agreed individual investments to supporting documentation such as custodian/bank statements obtained from the City and reconciled such to the Treasurer's Report.

Finding: No exceptions were noted as a result of applying our procedures.

2. We traced total investments listed on the Treasurer's Report to the City's general ledger.

Finding: Based on the work performed, we noted a net variance of \$12,600,000 between the Treasurer's Report and the City's general ledger (FMS) as of December 31, 2014. The variance is caused by a duplicated general ledger entry of a \$15,000,000 LAIF State Pool withdrawal on December 22, 2014 and another \$2,400,000 LAIF State Pool withdrawal on December 24, 2014 that was not posted to the City's general ledger. The Treasury Department subsequently detected and corrected these amounts in January 2015.

3. We compared the investments listed in the Treasurer's Report as of December 31, 2014 to the types of investments authorized by the City's Investment Policy, dated September 16, 2014.

Finding: No exceptions were noted as a result of applying our procedures.

4. We compared the fair value of the investments listed in the Treasurer's Report as of December 31, 2014, to supporting documentation such as custodian/bank statements.

Finding: No exceptions were noted as a result of applying our procedures.

5. We read the Treasurer's Report to determine whether it contains the information/data required by the City's Investment Policy and whether it meets the timing requirements of the City's Investment Policy, as follows:
 - a. The Treasurer's quarterly report includes the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and monies held by the City.
 - b. The Treasurer's quarterly report includes market value (and source) as of the date of the report of all securities held by the City or under management of any outside party.
 - c. The Treasurer's quarterly report states the compliance of the portfolio to the City's Investment Policy.
 - d. The Treasurer's quarterly report includes a statement addressing the ability of the City to meet the pool's expenditure requirements for the next six months.

Finding: No exceptions were noted as a result of applying our procedures.

6. We compared the investments listed in the Treasurer's Report as of December 31, 2014, to the prohibited investments listed in the City's Investment Policy.

Finding: No exceptions were noted as a result of applying our procedures.

7. We calculated the total investment amounts on a cost basis for the investment types listed in the Treasurer's Report as of December 31, 2014, and compared those totals to the maximum portfolio limitations imposed by the City's Investment Policy for specified investment types.

Finding: No exceptions were noted as a result of applying our procedures.

8. We agreed individual investment maturity dates listed in the Treasurer's Report as of December 31, 2014, to the custodian/bank statements and determine if they conform to the maturity requirements of the City's Investment Policy.

Finding: No exceptions were noted as a result of applying our procedures.

9. We obtained and read the third party custodial agreement(s) and broker/dealer agreement(s) in effect at the date of the Treasurer's Report to determine if the agreements contained a clause addressing delivery of securities and that the delivery method conformed to the City's Investment Policy.

Finding: No exceptions were noted as a result of applying our procedures.

10. We recomputed and reviewed supporting documentation relevant to the repurchase agreements and, if applicable, the reverse repurchase agreements held by the City on December 31, 2014, to ascertain whether the investments conform to the City's Investment Policy.

Finding: Not applicable. No repurchase or reverse repurchase agreements were held by the City on December 31, 2014.

11. We determined through inquiry and observation whether the responsibilities for initiating, evaluating and approving transactions are separate from detail accounting and general ledger functions.

Finding: No exceptions were noted as a result of applying our procedures.

12. We determined through inquiry and observation whether custodial responsibility for investments is restricted to authorized personnel and separate from personnel with accounting duties.

Finding: No exceptions were noted as a result of applying our procedures.

13. We determined through inquiry and observation whether responsibilities for detail investment records in the investment system (SunGard) are separate from general ledger functions.

Finding: No exceptions were noted as a result of applying our procedures.

14. We determined through inquiry and document inspection whether the City maintains authorized lists of signatures, security dealers, and counter parties and whether those lists are updated periodically.

Finding: No exceptions were noted as a result of applying our procedures.

15. We determined through inquiry and document inspection whether the City periodically counts and/or confirms its investments.

Finding: No exceptions were noted as a result of applying our procedures.

16. We determined through inquiry and document inspection whether reconciliations between physical counts and/or investment confirmations and detailed subsidiary records are prepared and reviewed by appropriate persons.

Finding: No exceptions were noted as a result of applying our procedures.

17. We determined through inquiry and document inspection whether investment income is periodically reviewed for accuracy by appropriate persons.

Finding: No exceptions were noted as a result of applying our procedures.

18. We determined through inquiry and document inspection whether reconciliations between detailed subsidiary records and general ledger control accounts are prepared and reviewed by appropriate persons.

Finding: No exceptions were noted as a result of applying our procedures.

19. We determined through inquiry and document inspection whether an appropriate person assesses the classification and valuation of its investments at acquisition and at the end of the quarter.

Finding: No exceptions were noted as a result of applying our procedures.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on whether the City's investments within the City's pooled portfolio are in compliance with the City's Investment Policy and Finance Department procedures as of December 31, 2014. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City Council, the Public Safety, Finance & Strategic Support Committee, the City Auditor, and City Management and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
March 30, 2015