

**CITY OF SAN JOSÉ**  
**POLICE AND FIRE DEPARTMENT**  
**RETIREMENT PLAN**  
(A Pension Trust Fund of the  
City of San José, California)

Management Comments and Recommendations

For the Fiscal Year Ended June 30, 2010

**CITY OF SAN JOSÉ  
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN**

**Fiscal Year Ended June 30, 2010**

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To the Board of Administration of the City of San José  
Police and Fire Department Retirement Plan  
San José, California

**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***

We have audited the financial statements of the City of San José Police and Fire Department Retirement Plan (Plan), a pension trust fund of the City of San José, California, as of and for the year ended June 30, 2010. Our report contained explanatory paragraphs describing the actuarial funded statuses of the Plan’s defined benefit pension plan and other postemployment healthcare plan as of June 30, 2009 and the Plan’s implementation of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Plan’s internal control over financial reporting 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 Plan’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan’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 the Plan’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Plan’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

In addition, during our audit we became aware of an opportunity for strengthening internal controls. The current year comment is included in the Management Comments and Recommendations section of this report. The Plan's written response to the comment identified in our audit has not been subjected to the audit procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

We would like to thank management and staff for the courtesy and cooperation extended to us during the course of our engagement.

This report is intended solely for the information and use of the Board of Administration, Department of Retirement Services management, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

*Macies Gini & Connell LLP*  
Certified Public Accountants

Walnut Creek, California  
November 22, 2010

**CITY OF SAN JOSÉ**  
**POLICE AND FIRE DEPARTMENT RETIREMENT PLAN**  
(A Pension Trust Fund of the City of San José, California)

Management Comments and Recommendations  
For the Year Ended June 30, 2010

**Current Year Comment**

**2010-1 Compliance with Conflict of Interest Policy**

*Control Deficiency*

**Observation:**

The City of San José's (City's) conflict of interest code, as set forth in Resolution 74709 and amended by Resolution 74837, and California Government Code section 87200 require public officials, persons who manage public investments, and other designated positions to file the Form 700 *Statement of Economic Interests*. The Form 700 must be filed within 30 days after assuming or leaving office (including positions newly added to a new or amended conflict of interest code), and annually by April 1. During our testing of the Plan's compliance with the conflict of interest code, we noted instances in which one prior Board member and five management personnel submitted the Form 700 past the due date, or did not have current Form 700s on file. Four of the management personnel were on extended leave or newly hired during the fiscal year. The transition of duties and responsibilities associated with the Department of Retirement Services' reorganization contributed to this oversight. We recommend that management strengthen internal controls over the monitoring of the Form 700 submissions to ensure that all required personnel file the Form 700s with the City Clerk's Office on a timely basis.

**Management Response:**

Management has met with the City Clerk's Office to more clearly define the responsibilities of the Department of Retirement Services (DRS). Budget cuts and the inability to fill vacancies caused both departments to lose their resource in this area. Due to this fact, there was uncertainty in who was responsible to monitor and collect the required forms. The resolution from the meeting was that DRS would monitor and collect on a go forward basis and the Clerk's Office agreed to make sure DRS had access to forms filed directly with their office.

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Management Comments and Recommendations  
For the Year Ended June 30, 2010

**Status of Prior Year Comments**

**2008-01 Contribution Reconciliation**

*Control Deficiency*

**Observation:**

We noted the City of San José's Payroll Division and the Department of Retirement Services (DRS) did not have a process to proactively identify and communicate new member information prior to the bi-weekly contribution transmittal process. We recommend the DRS work with the Human Resources Department (HRD) to establish a process whereby the HRD provides the DRS with a report of all new eligible members on a regular basis. The DRS should then compare the new eligible members to the transmittal file received from the City's Payroll Division to verify all contributions are captured.

The coordination between the DRS and the HRD to establish a process to notify DRS of new eligible members prior to receipt of the transmittal file has not been completed. DRS had delayed the coordination with the anticipation that other issues may be discovered by an Agreed-Upon Procedures (AUP) review to determine whether the DRS and the City's Payroll Division have systems and controls in place to ensure contributions are properly captured, transferred, and recorded. In the meantime, the DRS implemented a reconciliation to check and ensure the transmittal file received from the City's Payroll Division agrees to the amount wired to the custodian bank.

**Current Year Status:**

Recommendation has been implemented. DRS IT Staff has coordinated with the City's IT Department to set up a program by which DRS staff can download all new hires and rehires from PeopleSoft. In addition, DRS has coordinated with the City's Human Resource Department to obtain a listing of new hires and rehires prior to the payroll transmittal. The report from HRD serves as a double check to the report downloaded from PeopleSoft to ensure all new hires and rehires are captured in the transmittal process.

**2008-04 New Government Accounting Standard**

– *GASB No. 53 Accounting and Financial Reporting for Derivative Instruments*

*Informational*

**Observation:**

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The new rules may significantly change the Plan's accounting treatment of its derivative instruments. We recommend that the Department of Retirement Services begin its evaluation of the reporting requirements of this new standard. The Plan is required to fully implement GASB Statement No. 53 in the fiscal year ending June 30, 2010.

**Current Year Status:**

GASB Statement No. 53 has been implemented effective July 1, 2008.