



April 12, 2017

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

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Independent Accountant's Report on Agreed-Upon Procedures

We have performed the procedures enumerated below, which were described within "Agreement for Audit Services between the City of San Jose and Grant Thornton LLP," solely to assist the City of San Jose (the "City") (the "Specified Party") in connection with evaluating whether the investments within the City's pooled portfolio are in compliance with the City's Investment Policy and Finance Department procedures as of December 31, 2016. 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 the City. 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 2016-17 Second Quarter Investment Report ("Treasurer's Report"), as of December 31, 2016 to agree 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 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: No exceptions noted as a result of applying our procedures.

3. We compared the investments listed in the Treasurer's Report as of December 31, 2016 to the types of investments authorized for the City by the City's Investment Policy.

Finding: No exceptions 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, 2016 to custodian and bank statements.

Finding: No exceptions 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 second quarter 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 second quarter 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 second quarter report states the compliance of the portfolio to the City's Investment Policy.
- d. The Treasurer's second quarter 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 noted as a result of applying our procedures.

6. We compared the investments listed in the Treasurer's Report as of December 31, 2016, to the prohibited investments listed in the City's Investment Policy to see that prohibited investments were not on the Treasurer's Report.

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

7. We calculated the totals (cost basis) for the investment types listed in the Treasurer's Report as of December 31, 2016 and compared those totals to the limitations imposed by Section 9.0 to 9.19 of the City's Investment Policy for specified investment types.

Finding: No exceptions 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, 2016, to the custodian statements for accuracy and reviewed maturity dates to determine if they conformed to the maturity requirements of the City's Investment Policy.

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

9. We obtained 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 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, 2016, to ascertain whether the investments conform to the City's Investment Policy.

Finding: Not applicable. No repurchase or reverse purchase agreements were held by the City on December 31, 2016.

11. We inquired whether the responsibilities for initiating, evaluating and approving investment transactions are separate from detail accounting and general ledger functions.

Finding: The Investments Narrative provided by the City outlines that the individuals who initiate, evaluate, and approve investment transactions are the Financial Analyst, Principal Investment Officer, Deputy Director of Finance, Treasury, Director of Finance, and the Assistant Finance Director. The individuals responsible for detail accounting and general ledger functions include the Deputy Director of Finance, Accounting, Senior Accountant and Investment Accountant. We inquired with Principal Investment Officer to confirm the information in the narrative was accurate and she confirmed affirmatively. No exceptions noted as a result of applying our procedures.

12. We inquired whether the responsibility of custody and investment of funds is restricted to authorized personnel and separate from personnel with accounting duties.

Finding: The Investments Narrative provided by the City outlines that the Director of Finance is charged with the responsibility of custody and investment of funds. We inquired of Principal Investment Officer who explained that the Director of Finance does not perform accounting duties in the general ledger. No exceptions noted as a result of applying our procedures.

13. We inquired whether responsibilities for detailed investment records in the investment system (SunGard) records are separate from general ledger functions.

Finding: The Investments Narrative provided by the City outlines that only the Senior Account Clerk and Financial Analyst are authorized to enter data into SunGard and neither performs general ledger functions based on discussions with Principal Investment Officer. No exceptions noted as a result of applying our procedures.

14. We inquired whether the City maintains authorized lists of signatures, security dealers, and counterparties and whether those lists are updated periodically.

Finding: We inquired of the Principal Investment Officer who noted the authorized signer list is updated following any personnel changes and the dealer/broker list is updated as needed but are reviewed annually. No exceptions noted as a result of applying our procedures.

15. We inquired whether the City periodically counts and/or confirms its investments.

Finding: We determined through inquiry and documentation inspection that the City reconciles its investments from SunGard to Wells Fargo on a monthly basis. No exceptions noted as a result of applying our procedures.

16. We inquired whether reconciliations between physical counts and/or investment confirmations and detailed subsidiary records are prepared and reviewed and by whom.

Finding: We determined through inquiry of the Principal Investment Officer and inspection of December 2016 Reconciliation between SunGard and Wells Fargo, such reconciliation was prepared by the Financial Analyst and reviewed by the Principal Investment Officer. No exceptions noted as a result of applying our procedures.

17. We inquired whether investment income is periodically reviewed for accuracy.

Finding: We determined through inquiry of Investment Accountant and inspection of December Interest Income calculation the Investment Accountant periodically reviews investment income for accuracy. No exceptions noted as a result of applying our procedures.

18. We inquired whether reconciliations between detailed subsidiary records and general ledger control accounts are prepared and reviewed.

Finding: We determined through inquiry of the Senior Accountant and review of the December 2016 reconciliation, such reconciliation was prepared by the Investment Accountant and reviewed by the Senior Accountant. No exceptions noted as a result of applying our procedures.

19. We inquired about who has the responsibility to assesses the classification and valuation of investments at acquisition and at the end of the quarter.

Finding: We determined through inquiry of the Principal Investment Officer that this individual assesses the classification and valuation of its investments at acquisition and at the end of the quarter. No exceptions 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, 2016. 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 Specified Party and is not intended to be, and should not be, used by anyone other than the Specified Party.

Very truly yours,

Grant Thornton LLP