

**CITY OF SAN JOSÉ**  
Public Safety, Finance &  
Strategic Support Committee

Independent Accountant's Report on  
Applying Agreed-Upon Procedures

As of December 31, 2008



**MACIAS GINI & O'CONNELL** LLP  
Certified Public Accountants & Management Consultants

WALNUT CREEK  
2175 N. California Blvd., Suite 645  
Walnut Creek, CA 94596  
925.274.0190

SACRAMENTO

OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN MARCOS

SAN DIEGO

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 City of San José, California (City), 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 you in evaluating whether the City's investments within the City's pooled portfolio are in compliance with the City's Investment Policy, internal controls, and department procedures as of December 31, 2008. 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 2008-09 Second Quarter Investment Report (Treasurer's Report), as of December 31, 2008 and agreed individual investments/deposits to supporting documentation such as custodian statements, bank statements, and broker confirmations 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: Exceptions were noted as a result of applying our procedures. Based on the work performed, the City properly recorded the total investment amounts and the classification breakdown in the Treasurer's Report and the general ledger. However, we noted several errors in the recording of investment subcategories (i.e. coupon vs. discount) within the security type (i.e. FNMA, FFCB, and FHLMC) between the investments listed on the Treasurer's Report and the City's general ledger. These classifications were correctly reflected in the City's Investment System, and the City subsequently corrected these errors in its general ledger for the period ended January 31, 2009.

3. We compared the investments listed in the Treasurer's Report as of December 31, 2008 to the types of investments authorized for the City by the City's Investment Policy dated June 24, 2008.

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, 2008 to supporting documentation such as custodian statements, bank statements, and broker confirmations.

Finding: No exceptions were noted as a result of 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, 2008 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 totals (cost basis) for the investment types listed in the Treasurer's Report as of December 31, 2008 and compared those totals to the limitations imposed by the City's Investment Policy for specified investment types.

Finding: The City's Investment Policy (Policy) requires that whenever an exception to the Policy is made, that fact shall be reported to the City Manager and the City Council. Two technical exceptions were detected by Finance Investment staff in December 2008. Therefore, the Finance Director reported these two technical exceptions to the Mayor and City Council, City Manager, City Auditor and City Attorney via e-mail on December 31, 2008. The technical exceptions relate to the City's investments in commercial paper. Pursuant to the Policy, no more than 5% of the portfolio shall be invested in any single commercial paper issuer institution. While the State Government Code allows local agencies to invest up to 10% in this category, the City's Policy is more conservative, thus more restrictive at 5%. The first technical exception occurred on December 22<sup>nd</sup> and the second technical exception occurred on December 29<sup>th</sup> as discussed below.

- On December 22, 2008, the City exceeded the 5% per issuer limit for commercial paper by approximately 2.17%. The commercial paper investment matured on December 23, 2008 and the City's investment portfolio was back in compliance on December 23, 2008.
- On December 29, 2008, an additional commercial paper investment was made in which the total exceeded the 5% per issuer limit by 2.65%. The commercial paper purchased on December 29, 2008 matured on January 5, 2009 and the City's portfolio was in compliance with the City's Policy upon maturity.

8. We agreed individual investment maturity dates listed in the Treasurer's Report as of December 31, 2008 to the City's investment statements to 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, 2008 to ascertain whether the investments conform to the following requirements of the City's Investment Policy.

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

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 accounting records 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 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, internal controls, and department procedures as of December 31, 2008. 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 users listed above and is not intended to be and should not be used by anyone other than those specified parties.

*Macias Gini & Cunnell LLP*  
Certified Public Accountants  
Walnut Creek, California

April 20, 2009