

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

Independent Accountant's Report on  
Applying Agreed-Upon Procedures

As of June 30, 2009



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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 you 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, internal controls, and department procedures for the 6-month period ended June 30, 2009. 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 Fourth Quarter Investment Report (Treasurer's Report), as of June 30, 2009 and agreed individual investments 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: No exceptions were noted as a result of applying our procedures.

3. We compared the investments listed in the Treasurer's Report as of June 30, 2009 to the types of investments authorized for the City by the City's Investment Policy dated June 9, 2009.

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 June 30, 2009 to supporting documentation such as custodian statements, bank statements, and broker confirmations.

Finding: The City utilizes an external pricing source to determine the fair value of investments held in its portfolio. Based on our work performed, the City properly recorded the investments' costs. However, when comparing the investments' fair values listed in the Treasurer's Report as of June 30, 2009 to the custodians' statements, we noted that the City's external pricing source did not adjust two Corporate Medium Term Notes with total a cost of \$29,919,250 to its fair value of \$30,827,200, a difference of \$907,950. The City subsequently recorded a fair value adjustment in the amount of \$907,950 during the City's June 30, 2009 year-end financial statement close on August 21, 2009 to adjust this valuation change.

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 June 30, 2009 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 June 30, 2009 and compared those totals to the 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 June 30, 2009 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 June 30, 2009 to ascertain whether the investments conform to the City's Investment Policy.

Finding: Not applicable. No repurchase or reverse repurchase agreement held by the City on June 30, 2009.

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 June 30, 2009. 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 & Connell LLP*

Certified Public Accountants  
Walnut Creek, California

September 25, 2009