

**CITY OF SAN JOSE**

Independent Accountant's Report on  
Applying Agreed-Upon Procedures

As of June 30, 2018



Certified  
Public  
Accountants



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 (City) Finance Department and the Office of the City Auditor (City Auditor), solely to assist these specified parties in 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 June 30, 2018. The City's management is responsible for the City's compliance with those requirements. 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.

The procedures and associated findings are as follows:

1. We obtained a copy of the FY 2017-18 Fourth Quarter Investment Report (Investment Report) as of June 30, 2018 and agreed individual investments, which includes investment description, maturity date, CUSIP number, book and market value, to supporting documentation such as custodian/bank statements obtained from the City.

Finding: We noted there was a difference of \$9.1 million in market value representing 0.51% of the portfolio, where the custodian's statement reported a higher balance compared to the Investment Report as of June 30, 2018. The variance represents two timing differences, whereas 1) the settlement of Investment #37585 amounting to \$10.0 million was posted on the settlement date by the custodian versus the City's maturity date, and 2) the timing of when market values are extracted by the City and the custodian amounting to a difference of \$0.9 million.

2. We traced total investments listed on the Investment Report as of June 30, 2018 to the City's general ledger.

Finding: We noted a net variance of \$10.0 million between the Investment Report and the City's general ledger (FMS) as of June 30, 2018. The variance represents the settlement of Investment #37585 where the City's general ledger reported a higher balance compared to the Investment Report as of June 30, 2018. The variance was resolved when the Investment was settled through the City's custodian on the next business day and the Investment staff posted the cash journal in early July.

3. We verified the types of investments listed in the Investment Report as of June 30, 2018 were authorized by the City's Investment Policy dated March 6, 2018.

Finding: No exceptions were found as a result of applying the procedure.

4. We read the Investment Report as of June 30, 2018 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 investment 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 investment 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 investment quarterly report states the compliance of the portfolio to the City's Investment Policy.
  - d. The investment 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 found as a result of applying the procedure.

5. We verified the investments listed in the Investment Report as of June 30, 2018 were not prohibited investments listed in the City's Investment Policy.

Finding: No exceptions were found as a result of applying the procedure.

6. We calculated the total investment amounts on a cost basis for the investment types listed in the Investment Report as of June 30, 2018, and compared those totals to the maximum portfolio limitations imposed by the City's Investment Policy for specified investment types.

Finding: No exceptions were found as a result of applying the procedure.

7. We agreed individual investment maturity dates listed in the Investment Report as of June 30, 2018, to the custodian/bank statements and determine if they conform to the maturity requirements of the City's Investment Policy.

Finding: No exceptions were found as a result of applying the procedure.

8. We obtained and read the third party custodial agreement(s) and broker/dealer agreement(s) in effect at the date of the Investment 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 found as a result of applying the procedure.

9. 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, 2018, 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 June 30, 2018.

10. 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 found as a result of applying the procedure.

11. 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 found as a result of applying the procedure.

12. 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 found as a result of applying the procedure.

13. 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 found as a result of applying the procedure.

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

Finding: No exceptions were found as a result of applying the procedure.

15. We determined through inquiry and document inspection whether counts and/or investment confirmations and detailed subsidiary records are prepared by Accounting Technician and reviewed by Assistant Director of Finance and Deputy Director of Accounting.

Finding: No exceptions were found as a result of applying the procedure.

16. We determined through inquiry and document inspection whether investment income is periodically reviewed for accuracy by the Assistant Director of Finance and Deputy Director of Accounting.

Finding: No exceptions were found as a result of applying the procedure.

17. We determined through inquiry and document inspection whether reconciliations between detailed subsidiary records and general ledger control accounts are prepared by Accountant I and reviewed by Supervising Accountant.

Finding: No exceptions were found as a result of applying the procedure.

18. 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 found as a result of applying the procedure.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, 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 June 30, 2018. Accordingly, we do not express such an opinion or conclusion. 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 Finance Department 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  
September 27, 2018