

CITY OF SAN JOSE

Independent Accountant's Report on
Applying Agreed-Upon Procedures

As of December 31, 2022



Independent Accountant's Report on Applying Agreed-Upon Procedures

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

We have performed the procedures enumerated below on the investment program within the City of San José (City) as of December 31, 2022. The City's management is responsible for the City's compliance with the Investment Policy.

The City's Finance Department and the Office of the City Auditor (City Auditor) have agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of evaluating whether the investments within the City's pooled portfolio are in compliance with the City's Investment Policy dated March 15, 2022 and Finance Department procedures as of December 31, 2022. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and associated findings are as follows:

1. Management of the City provided us with a copy of the FY 2022-23 Second Quarter Investment Report (Investment Report) as of December 31, 2022 and we traced and agreed individual investments, which includes investment description, maturity date, CUSIP number, book and fair value, to supporting documentation such as custodian/bank statements obtained from the City.

Finding: We noted a net variance of \$727,587 for fair values between the Investment Report and the supporting documentation such as custodian/bank statements as of December 31, 2022. The variance is due to the timing of when the Investment Report was extracted. The Investment Report was extracted on a bank holiday and the City intended to but did not update the report. As a result, the fair values of the investments do not agree to the custodian/bank statements by 0.03% of the total pooled portfolio.

Management Response: Updating fair market values (FMVs) in SymPro, the investment management software, is not an automated process. The financial analyst manually downloads FMVs from the custodian bank online portal at the beginning of every month, and imports them into SymPro. In this case, the financial analyst manually downloaded the monthly FMVs on January 2, 2023; however, the custodian bank had not yet posted the December 31, 2022 FMVs. Therefore, the SymPro Investment Report noted above contained outdated FMVs which did not match the custodian bank statement dated December 31, 2022. FMVs as of December 31, 2022 were updated subsequently in SymPro on 01/04/2023.

In the future, staff will ensure the custodian bank downloads are for the appropriate time period. Staff will also explore whether an automated monthly process between SymPro and the custodian bank may be implemented.

2. We traced total fair value of investments listed on the Investment Report as of December 31, 2022 to the City's general ledger.

Finding: We noted a net variance of \$11,153,498 between the Investment Report and the City's general ledger as of December 31, 2022. The variance represents various posting errors to the general ledger. The variance was resolved when the City corrected the errors subsequent to the general ledger date of December 31, 2022.

Management Response: The Investment and Accounting Teams have scheduled monthly meetings to discuss and correct variances in a timely manner. Moreover, the Investment Team will implement a process of reconciling SymPro entries with general ledger entries prior to meeting with the Accounting Team. As of the close of this audit, all variances have been corrected.

3. We compared the types of investments listed in the Investment Report as of December 31, 2022 with the types of investments that are authorized by the City's Investment Policy.

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

4. We read the Investment Report as of December 31, 2022 to confirm that 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 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 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 Report includes a statement addressing the portfolio's compliance with the portfolio to the City's Investment Policy.
- d. The Investment 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 calculated the total investment amounts on a cost basis for the investment types listed in the Investment Report as of December 31, 2022, 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.

6. We calculated the total investment amounts on a cost basis for issuers listed in the Investment Report as of December 31, 2022, and determined whether total investments for each issuer were less or equal then the maximum portfolio limitations imposed by the City's Investment Policy.

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 December 31, 2022 to the custodian/bank statements and determined whether 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 recalculated and agreed supporting documentation relevant to the repurchase agreements and, if applicable, the reverse repurchase agreements held by the City on December 31, 2022, to ascertain whether the investments conformed to the City's Investment Policy.

Finding: Not applicable. No repurchase or reverse repurchase agreements were held by the City on December 31, 2022.

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 detailed investment records in the investment system (Sympro) 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 counterparties and whether those lists are updated periodically.

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

14. We selected an investment purchase and maturity transaction between July 1, 2022 and December 31, 2022 and determined through inquiry and document inspection whether the Investment Staff counts and/or confirms its investments as transactions occur.

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

15. We selected an investment purchase and maturity transaction between July 1, 2022 and December 31, 2022 and determined through inquiry and document inspection whether reconciliations between detailed subsidiary records and general ledger control accounts are prepared by an Accountant and reviewed by a Senior Accountant or Supervising Accountant.

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 recorded in the City's financial system and reviewed for accuracy.

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

17. We selected an investment purchase and maturity transaction between July 1, 2022 and December 31, 2022 and determined through inquiry and document inspection whether the Deputy Director of Finance, Accounting and the Deputy Director of Finance, Debt and Treasury Management assesses the classification and valuation of its investments at acquisition. If either Deputy Director of Finance position is vacant or unavailable to sign, the Assistant Director of Finance or Director of Finance may sign in place of either Deputy Director of Finance. Additionally, we verified that the quarterly investment report was produced, agendaized on Public Safety, Finance, & Strategic Support Committee and City Council meetings and posted on the City's public website.

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

We were engaged by the City to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the AICPA. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on whether the investments within the City's pooled portfolio are in compliance with the City's Investment Policy dated March 15, 2022 and Finance Department procedures as of December 31, 2022. 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.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

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.



Walnut Creek, California
June 13, 2023