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**To:** City Finance Officers, CPAs and Other Interested Parties  
**From:** The California Committee on Municipal Accounting  
**Subject:** CCMA WHITE PAPER: Agreed-upon Procedures Applied to Investment Portfolios of Local Governments

On occasion, a local government may request that its auditor perform specific additional procedures relating to its investment portfolio. In 1997, a CCMA white paper was published to provide guidance on the recommended form of reporting for such engagements. In 2001, the Auditing Standards Board withdrew the *auditing standard* that addressed engagements to perform agreed-upon procedures applied to the elements of a financial statement. Agreed-upon procedures engagements must now be performed under the *attestation standards*. The purpose of this white paper is to provide a revised version of the recommended report that conforms to these recent changes in the professional standards.

The California Committee on Municipal Accounting is comprised of representatives of the California Society of Certified Public Accountants and the League of California Cities. The primary purpose of CCMA is to serve the public interest by providing guidance to promote the highest degree of sound financial administration and ensuring the fullest cooperation between city officials and members of the independent accounting profession.

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# **Agreed-upon Procedures Applied to Investment Portfolios of Local Governments**

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## AGREED-UPON PROCEDURES APPLIED TO INVESTMENT PORTFOLIOS OF LOCAL GOVERNMENTS

### Purpose of Paper

On occasion, a local government may request that its auditor perform specific procedures relating to its investment portfolio that are in addition to what is normally performed in an audit in accordance with generally accepted auditing standards. In 1997, the California Committee on Municipal Accounting issued a paper to provide guidance on the recommended form of reporting for such engagements. SAS No. 75 was used as the authoritative basis for such reporting. In 2001, the Auditing Standards Board withdrew SAS 75. All agreed-upon procedures are now performed under *attestation standards*, rather than auditing standards. The purpose of this white paper is to revise the recommended reporting for such engagements to conform to these changes in the auditing standards and attestation standards that became effective in 2001.

The nature of these engagements varies according to the specific circumstances applicable to the local government involved. However, these engagements are generally fairly narrow in scope and address very specific objectives applicable to a Treasurer's report or other similar investment schedules as of a specific date. Because of the limitations (and cost) of the procedures involved, these engagements are not designed to provide conclusions about the appropriateness of a particular investment strategy or to offer overly broad conclusions about compliance with laws and regulations.

### Background and Authoritative References

In September 1995, the AICPA's Auditing Standards Board issued SAS No. 75, *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement*. This auditing standard addressed the proper wording for engagements to perform agreed-upon procedures that were applied to the elements of a financial statement, including the accounting records that underlie such financial statements. On the other hand, agreed-upon procedure engagements applied to *non-financial* subject matter or assertions were required to be performed under the attestation standards (i.e., SSAE No. 3, etc.), rather than the auditing standards (i.e., SAS 75, etc.). In January 2001, the AICPA's Auditing Standards Board issued SSAE No. 10, *Attestation Standards: Revision and Recodification*, which, in part, amended the attestation standards to remove the requirement for a *written* assertion as a condition of performance for agreed-upon procedures engagements under the attestation standards. With the removal of this requirement, the AICPA's Auditing Standards Board also issued SAS No. 93, *Omnibus Statement on Auditing Standards*, which, in part, rescinded SAS No. 75. This was done in order to consolidate the guidance applicable to agreed-upon procedures engagements under the professional standards. The effective date is when the

subject matter or assertion is as of or for a period ending on or after June 1, 2001 with earlier application permitted.

In October 1996, the *California Debt Advisory Commission* (CDAC) developed guidelines (entitled *Local Agency Investment Guidelines*) recommending how to interpret and implement recent statutory changes in the California Government Code affecting local government investments and Treasurer reporting on those investments. The practitioner should consider these guidelines when performing the engagements addressed by this white paper.

### Applicability of SSAE No. 10 to Financial Data Derived from Accounting Records

Paragraph 1.15 of SSAE No. 10 states:

An agreed-upon procedures attest engagement is one in which a practitioner is engaged to issue a report of findings based on specific procedures performed on subject matter. The general, fieldwork, and reporting standards for attest engagements set forth in this chapter are applicable to agreed-upon procedures engagements.

Paragraph 2.08 of SSAE No. 10 states:

The subject matter of an agreed-upon procedures engagement may take many different forms and may be at a point in time or covering a period of time. In an agreed-upon procedures engagement, it is the specific subject matter to which the agreed-upon procedures are to be applied using the criteria selected.

### Conclusions

Based upon these definitions, it is clear that SSAE No. 10 would apply to the reporting associated with the agreed-upon procedures applied to the listing of a City's investments contained in a Treasurer's report or other similar schedule. Accordingly, the accompanying example has been provided to illustrate the appropriate wording to use to report the results of agreed-upon procedures applied to the investment records of a local governmental unit using the language specified by SSAE No. 10.

The nature and extent of the procedures to be performed will vary from engagement to engagement. Different local governments have investment portfolios with various compositions and with differing inherent risks. Different local governments may have different concerns with regard to their portfolio. Furthermore, because these special procedures can be quite costly, some local governments may limit the agreed-upon procedures.

Accordingly, the accompanying example wording that is provided for illustration purposes only will need to be altered to fit the circumstances of each engagement. The procedures listed are provided for illustration purposes only and are not meant to suggest those procedures that should be performed in any particular situation.

City Council  
City of Example, California

Independent Accountants' Report on Applying Agreed-Upon Procedures

We have performed the procedures enumerated below which were agreed to by the City Council and management of City of Example, California solely to assist you in evaluating the Treasurer's Report for the month ended December 31, 20XX for compliance with the provisions of the California Government Code and with the City's investment policy dated XXXX. The management of City of Example is responsible for the Treasurer's Report for the month ended December 31, 20XX. 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 this 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.

Scope of Procedures Performed and Resultant Findings

The agreed-upon procedures *[to be tailored based upon the circumstances of the engagement]* and our findings are described below:

1. We obtained a copy of the Treasurer's Report as of December 31, 20XX and agreed individual investments/deposits to supporting documentation [custodian statements, bank statements, broker confirmations, etc.] obtained from the City and reconciled such to the Treasurer's Report. 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 our procedures.

2. We compared the investments listed in the Treasurer's Report as of December 31, 20XX to the types of investments authorized for the City by the City's investment policy and Government Code Section 53601.

Finding: No unauthorized investments were noted as a result of our procedures.

3. We compared the market value of the investments listed in the Treasurer's Report as of December 31, 20XX to [custodian statements, bank statements, broker confirmations, etc.]

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

4. We read the Treasurer's Report to ascertain if it contained the information/data required by Code Section 53646 and met the timing requirements of Code Section 53646, as follows:

- a. Was submitted within 30 days following the end of the quarter.
- b. Included type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and monies held by the City.
- c. Included those funds under management of contracted parties (fiscal agents, trustees, deferred compensation administrators, etc.)
- d. Included 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.
- e. Stated compliance of the portfolio to the investment policy of the City.
- f. Included 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 our procedures.

5. We compared the investments listed in the Treasurer's Report as of December 31, 20XX to the prohibited investments listed in Government Code Section 53601.6.

Finding: No such prohibited investments were noted in the Treasurer's Report as a result of our procedures.

6. We calculated the totals (cost basis) for the investment types listed in the Treasurer's Report as of December 31, 20XX and compared those totals to the limitations imposed by the City investment policy and Government Code Section 53601 for specified investment types.

Finding: We found no violations of such limitations, except that the City's holdings in commercial paper was \_\_\_\_\_%, which exceeded the 15 % limitation imposed by the City investment policy and Government Code Section 53601. When the commercial paper investments were purchased, the City was in compliance with the stipulated 15% limitation for commercial paper investments. However, as of December 31, 20XX, the amount of the total City portfolio had diminished so that the current balance of commercial paper investments represented a greater percentage (\_\_\_\_\_) of the City's portfolio than that allowed by Government Code Section 53601.

7. We agreed individual investment maturity dates listed in the Treasurer's Report as of December 31, 20XX to the City's copies of investment statements to determine if they conformed to the maturity requirements of the City investment policy and Government Code Section 53601.

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

8. We obtained and read the third party custodial agreements(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 Code Section 53601.

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

9. We recomputed and reviewed supporting documentation relevant to the repurchase agreements and reverse repurchase agreements held by the City on December 31, 20XX to ascertain if these investments conformed to the following requirements of Code Section 53601(i) and 53635(i):
  - a. The delivery of the securities and the underlying collateral was in accordance with the requirements of Section 53601.
  - b. The market value of the securities underlying the repurchase agreement was 102 percent or greater than the value of the funds borrowed.
  - c. The City owned and fully paid for the underlying securities to be sold for reverse repurchase agreements for a minimum of 30 days prior to sale.
  - d. The maximum amount of funds used in the reverse repurchase agreement did not exceed 20 percent of the base value of the portfolio of the City.
  - e. The maximum term of reverse repurchase agreements did not exceed 92 days (unless a written agreement was in place guaranteeing the minimum earnings spread for the entire period between the sale and the maturity of the security).

Finding: No exceptions were noted as a result of 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 the Treasurer's Report dated December 31, 20XX. 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 City Council and management of the City of Example, California and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Firm's signature*

*[Date procedures were completed]*