



California
Committee on
Municipal
Accounting

June 2001

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 the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution

In 1991, the League of California Cities presented in its publication entitled *Article XIII-B Appropriations Limitation Uniform Guidelines* an example of the wording recommended by the League to be used to report the performance of certain procedures applied to the computation of the statutory appropriation limitation. In 1997, the form of reporting for such engagements was revised by the Auditing Standards Board by its issuance of Statement on Auditing Standards No. 75. A CCMA white paper was published in 1997 to revise these reports to conform to SAS No. 75. In 2001, the Auditing Standards Board withdrew SAS No. 75. 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.

*Created by the
California Society of
Certified Public
Accountants and
the League of California
Cities to improve
financial reporting by
California cities*

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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.

**Agreed-upon Procedures Applied
to the Appropriations Limitation
Prescribed by Article XIII-B of
the California Constitution**

June 2001

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AGREED-UPON PROCEDURES APPLIED TO
THE APPROPRIATIONS LIMITATION PRESCRIBED BY
ARTICLE XIII-B OF THE CALIFORNIA CONSTITUTION

Purpose of Paper

Section 1.5 of Article XIII-B of the California Constitution requires that local governments engage their auditors to apply certain agreed-upon procedures to the appropriation limit data compiled by the local government. In 1991, the League of California Cities presented in a publication entitled *Article XIII-B Appropriations Limitation Uniform Guidelines* an example of the wording recommended by the League to be used to report on the performance of these procedures. In 1997 the report language in the white paper was revised for changes in the auditing standards for such engagements. The purpose of this white paper is to again revise the prescribed reporting for such engagements to conform to changes in the auditing standards and attestation standards for such engagements that became effective in 2001.

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.

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 a local government's computation of its statutory appropriation limitation. 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 appropriation limit of a local governmental unit using the language specified by SSAE No. 10.

City Council
City of XYZ, California

Independent Accountants' Report on Applying Agreed-Upon Procedures

We have performed the procedures enumerated below to the accompanying Appropriations Limit worksheet No. 6 (or other alternative computation) of the City of XYZ, California for the year ended June 30, 200X. These procedures, which were agreed to by the City of XYZ, California and the League of California Cities (as presented in the publication entitled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution*), were performed solely to assist the City of XYZ, California in meeting the requirements of Section 1.5 of Article XIII-B of the California Constitution. The City of XYZ management is responsible for the Appropriations Limit worksheet No. 6 (or other alternative computation). 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.

The procedures performed and our findings were as follows:

1. We obtained the completed worksheets No. 1 through No. 7 (or other alternative computations) and compared the limit and annual adjustment factors included in those worksheets to the limit and annual adjustment factors that were adopted by resolution of the City Council. We also compared the population and inflation options included in the aforementioned worksheets to those that were selected by a recorded vote of the City Council.

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

2. For the accompanying Appropriations Limit worksheet No. 6, we added line A, last year's limit, to line E, total adjustments, and compared the resulting amount to line F, this year's limit.

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

3. We compared the current year information presented in the accompanying Appropriations Limit worksheet No. 6 to the other worksheets described in No. 1 above.

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

4. We compared the prior year appropriations limit presented in the accompanying Appropriations Limit worksheet No. 6 to the prior year appropriations limit adopted by the City Council for the prior year.

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 accompanying Appropriations Limit worksheet No. 6 (or other alternative computation). 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. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the information and use of the City Council and management of the City of XYZ, 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.

[Date of opinion on City financial statements]