

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA
OFFICE OF ETHICS, COMPLIANCE AND AUDIT SERVICES



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Sheryl Vacca
SENIOR VICE PRESIDENT
CHIEF COMPLIANCE AND AUDIT OFFICER

June 9, 2015

EXECUTIVE VICE PRESIDENT BROSTROM

RE: Final Report Project No. P15A007: External Financing Campus Reimbursement Process

Attached please find a copy of the final report for: Audit No. P15A007 External Financing Campus Reimbursement Process. With the issuance of this final report, please destroy any previous draft versions. We very much appreciate the assistance provided to us by you and members of your staff during our review. If you should have any questions please feel free to contact me at 510-987-9646 (email: matthew.hicks@ucop.edu).

A handwritten signature in black ink, appearing to read "Matt Hicks".

Matt Hicks
Audit Director

Attachment

cc: Senior Vice President Vacca
Associate Vice President Kim
Director Sodhi
Director Yin
Manager Cataldo
Finance Officer Hsu
Principal Auditor Wong

UNIVERSITY OF CALIFORNIA
ETHICS, COMPLIANCE AND AUDIT SERVICES
OFFICE OF THE PRESIDENT
SYSTEMWIDE AUDIT

External Financing Campus Reimbursement Process
Audit No. P15A007
February 2015

Work Performed by:
Principal Auditor Wong

Work Reviewed by:
Audit Manager Cataldo
Audit Director Hicks

Executive Summary

Introduction

As part of the Chief Financial Officer (CFO) division, the Capital Asset Strategies and Finance Office supports Systemwide capital projects and capital raising activities. The Capital Markets Finance (CMF) unit is responsible for managing the University's external financing operations. UC accesses the capital markets to finance capital and working capital needs for its campuses and medical centers.

All UC projects requesting approval for external financing must be approved either by the Board of Regents or UC President under delegated authority. Standing Order 2585, dated November 24, 2014 delegates authority to CFO Brostrom for external financing: http://policy.ucop.edu/_files/da/da2585.pdf

External financing instruments are in the form of taxable or tax exempt debt obligations. Several regulations guide the reimbursement of capital expenditures approved for tax exempt financing. Reimbursement rules include Internal Revenue Service (IRS) regulations related to the types of costs and the timing of such expenditures, For example, the IRS requires that if a borrower intends to be reimbursed for certain expenditures from the proceeds of a tax-exempt financing, the borrower must adopt a Declaration of Official Intent (DOI). Reimbursement for project-related costs cannot occur for expenditures that do not meet the requirements specified by the IRS. Each reimbursement request by the campus is an affirmation that the expenditures are proper project expenditures. CMF processes campus monthly external financing requests for reimbursements and disbursements to the campuses representing reimbursements for actual expenditures.

As of December 31, 2014 the University has \$15.9¹ billion of outstanding debt and \$2 billion in authorized commercial paper. The \$15.9 billion outstanding debt includes \$10.5 billion in General Revenue Bonds, \$2.7 billion in Medical Center Pooled Revenue Bonds, \$2 billion in Limited Project Revenue Bonds (which finance primarily auxiliary services such as student housing and parking), \$411 million in Financing Trust Structure (debt issued by a party other than the University but for a project in which the University has an economic interest), \$47 million in Hospital Revenue Bonds, and \$266 million in Other Third Party Debt (through California Infrastructure and Economic Development Bank).

Objective and Scope

The Office of the President Ethics, Compliance and Audit Services unit, as part of its annual audit plan for Fiscal Year 2014-2015, conducted an audit of the Capital Markets Finance unit's processes and guidelines for reimbursement of capital expenditures approved for tax exempt financing, including commercial paper and long term bonds. As part of its scope, the audit examined the processes that campuses follow when requesting

¹ Does not include bonds which were financed in March and April 2015. In March, the University issued \$2.9 billion General Revenue Bonds and Limited Project Revenues Bonds to finance projects and refinance existing debt at lower rates. In April, the University also issued a \$500 million 100-year General Revenue Bond.

reimbursement, the roles and responsibilities of campus individuals involved in capital debt administration, and reviewed accounting records of select capital projects to ensure documentation maintained supported reimbursement requests.

The objectives of the audit were to 1) evaluate campus monthly external financing drawdown request procedures supporting capital expenditures, 2) determine if campus handlings on excess drawdowns are appropriate, and 3) assess whether or not campuses maintained sufficient and appropriate support for capital expenditures.

To accomplish the audit objectives and scope as documented above, the following procedures were performed:

- Conducted interviews with select campus personnel, including Associate Vice Chancellors, Space Management & Capital Programs Executive Director, Budget/Accounting Directors, Fund and Financial Managers, Principal Budget Analysts, Assistant Controllers, Accounting Managers, and Senior/Staff Accountants to determine the external financing reimbursement processes.
- Obtained relevant procedure documentation to gain an understanding of CMF and campus external financing drawdown processes.
- Assessed campus drawdown procedures supporting capital expenditures paid and incurred.
- Selected 10 projects for review, one from each campus, representing \$289 million in external financing (see appendix A), funded by tax-exempt debt instruments between calendar 2009 and 2014. Reviewed pertinent campus capital expenditure records and CMF drawdown records to ensure transaction records for capital expenditures supported drawdown amounts.
- For each project selected, reviewed a sample of expenditures to ensure campus documentation (such as timesheets and invoices) appropriately supported capital expenditures.

Overall Conclusion

Based on the audit work performed, we concluded that campuses are following the guidelines and procedures established for drawdowns.

Monthly external financing drawdown request processes generally required simple calculations and campuses reconciled records between capital expenditures and drawdown requests. CMF drawdown records agreed with campus capital expenditure records, and drawdown amounts were supported by capital expenditure transactions. In all cases, the campuses maintained appropriate documentation supporting capital expenditures.

We further noted that monthly external financing requests were based on actual paid expenditures or expenditures paid plus expenditures incurred to be paid. Excess monthly drawdowns, if any, were applied to next month expenditures, and interest income earned from excess drawdowns was appropriately restricted to Short Term Investment Pool.

Appendix A**Projects Selected for Review**

<u>Campus</u>	<u>Project</u>	<u>Funding</u>	<u>Draw Requested</u>
Berkeley	Helios	2009 General Revenue Bonds Series Q	\$20,813
Davis	Segundo Services Center	2012 Limited Project Revenue Bonds Series G	\$16,297,738
Irvine	Social and Behavioral Sciences	2009 General Revenue Bonds Series Q	\$18,023
Los Angeles	Hitch Suites	2010 Medical Center Pooled Revenue Bonds Series G	\$18,665,248
Merced	AB 94 -- Central Plant/Telecomm Reliability Upgrade	Commercial Paper	\$1,219,638
Riverside	Summer Ridge Apts	2009 General Revenue Bonds Series Q	\$2,199,518
San Diego	East Campus Bed Tower	2013 Medical Center Pooled Revenue Bonds Series J	\$246,924,075
San Francisco	Osher - Mt. Zion Medical Office Building	2009 Medical Center Pooled Revenue Bonds Series E	\$2,295,587
Santa Barbara	North Hall Data Center	2009 General Revenue Bonds Series Q	\$209,906
Santa Cruz	2010-11 Deferred Maintenance	2011 General Revenue Bonds Series AB	\$1,397,200