

CDIAC

**CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION**

SESSION 3

**DETERMINING STAFFING AND TRAINING NEEDS:
WHO SHOULD BE INVOLVED?**

Learning Objectives

By the end of this session attendees will be able to:

- 1) Determine who should be involved in the tasks outlined in your policies and procedures.
- 2) How to ensure the segregation of duties.
- 3) The types of oversight needed.
- 4) Whether the functions can be performed in-house or must be out sourced.

The Control Activities

- Identify agency/division responsible for issuance and management of debt
 - ▣ Appropriate staffing levels
 - ▣ Qualified staff
 - ▣ On-going training
- Identify roles and responsibilities of internal participants in debt management
 - ▣ Issuing agency: Public Finance
 - ▣ Sponsor department: Public Works, Recreation & Parks, Public Health, Fire, etc.
 - ▣ Account set-up: Accounting Operations and Systems Division
 - ▣ Budgeting: Budget Office and Debt Management
 - ▣ Governing Board and/or its staff

The Control Activities

- Identify quantifiable measures and performance evaluation; semi-annual reporting
- Prepare a Debt Policy
 - Set specific targets for:
 - Timeliness of disclosure and noticing
 - Debt service payments
 - Turnaround time of paying invoices
 - Due diligence: frequency
 - Staff and stakeholder training
 - Credit rating management
 - Refunding Opportunities
 - IRS reporting
 - Updates to existing policies

Information & Communication

- Internal Staff
 - Tone at the top critical to meaningful program
 - Train governing board members, management and staff responsible for administration and compliance
 - Make sure they have a basic understanding of the process
 - Make sure they have a thorough understanding of their role and responsibilities
 - May require documented completion of biennial debt and ethics training
 - Develop annual checklist to determine compliance obligations

Information & Communication

- Internal Staff cont'd.
 - Resources for bond issuance and administration training
 - [CDIAC Seminars](#)
 - [GFOA Trainings](#)
 - [Bond Buyer Conferences](#)
 - Disclosure Counsel
 - [State of CA Ethics Training](#)
 - [CA Debt Financing Guide](#)

Information & Communication

- Internal Staff cont'd.
 - ▣ Establish fund and account structure to record and report use of proceeds
 - Tracking sources and uses of funds is critical
 - ▣ Establish process to periodically evaluate changed risks, legislative or legal actions or events requiring changes to control system
 - ▣ Ensure process in place to communicate to responsible staff changes in reporting, disclosure or other requirements

Information & Communication

- External Audiences
 - Establish accountability and level of trust with public and interested parties
 - Annual reports
 - Highlight purpose and use of proceeds
 - Provide milestones of success toward meeting objectives
 - Account for bond expenditures
 - Provide status of bond funds

Disbursement of Bond Proceeds

□ Preventive Controls

■ Documentation – Segregation of Duties

- Designate individuals with authority to initiate, submit, reconcile, view or approve different types of transactions
 - Ideally at a minimum two designees
 - Maintain signature cards and update from time to time
- Designate a point person for processing transactions
- Institute timely authorizations and processing of transaction
- Conduct periodic staff-level trainings for individuals in oversight and internal control functions

Disbursement of Bond Proceeds

□ Preventive Controls

▣ Format of source documents

- Establish standard forms or templates
- Establish internal tracking record of activities including but not limited to date, amount, payee information, tracking/transaction number
- Establish red flag exception reporting
 - Significant errors and discrepancies
 - Payee information varies from the pre-authorized payee information

Disbursement of Bond Proceeds

- Detective/Corrective Controls
 - Accuracy of activities
 - Verify that transactions and activities are for the correct purpose and amount, and allowable
 - Verify recording of transactions in a timely manner
 - Establish consistent reconciliation processes
 - Make cash confirmations part of the post-audit and/or financial audit, prepared-by-client procedures
 - Timely preparation of annual review of process narratives and cash confirmation reporting to external auditors or internal auditors
 - Maintain proper documentation for purposes of the annual audit process by the City's external auditor pursuant to City Charter and CA Government Code.
 - Maintain proper documentation for purposes of any audit
 - IRS
 - SEC

Disbursement of Bond Proceeds

- Resolution of errors and discrepancies
 - Notify interested parties on extent of error and/or discrepancy
 - Trustee
 - Tax/Bond/Disclosure Counsel
 - EMMA
 - Establish expectations for timeliness of error correction or recovery of unallowable funds disbursed

Training for Post Issuance Compliance

- Contract Management
- Budget Actions
- Post-Issuance Compliance
 - Tax Law Requirements
 - Disclosure Requirements
 - Bond Covenants and Agreements
- Disbursement of Bond Proceeds
- Investment of Bond Proceeds
- Facility Use Monitoring

Training for Post Issuance Compliance – Contract Management

- Consultants and Service Providers
 - ▣ Establish contract procedures
 - ▣ Track payments and encumbrances
 - ▣ Contract payment process

Training for Post Issuance Compliance – Budgeting for Debt Service Payments

- Annual budget actions necessary to appropriate debt service and related payments
 - ▣ Who in your organization is responsible for debt service payment activities?
 - ▣ How are reserve fund earnings treated?
 - ▣ How are you going to annually “clean out” your debt service payment funds
- Require Trustee/Fiscal Agent to send debt service invoice
- Ensure sufficient time for internal wire/check processing
- Work with investment/cash management staff, debt service critical component of any cash flow analysis

Training for Post-Compliance – Budgeting for Variable Rate Debt

- Objective: minimize program impact by making a reasonable interest rate assumption
- Create a methodology and use consistently
- Involves a programmatic budgetary trade-offs
- Interest rate risk
 - Think about establishing a set-aside reserve
- Assume average rate in effect through next budget period and monitor throughout the budget year
- Annual debt service (principal x interest rate)+portion of principal
 - Future interest rates are unknown for variable rate debt

Training for Post Issuance Compliance – Tax Law Compliance

- Tax Law Requirements
 - ▣ General Matters
 - ▣ Use of Proceeds
 - ▣ Private Activity Bonds
 - ▣ Arbitrage
 - ▣ Pool Bonds
 - ▣ Record Retention

Training for Post Issuance Compliance – Disclosure Compliance

- Disclosure Requirements
 - SEC Rule 15c2-12
 - Use of EMMA mandated since July 1, 2009
 - Notification to Underwriters of Bonds
 - Info Requirements to Other Entities
 - Create universal e-mail address for reporting and noticing
 - Establish an investor website

- Miscellaneous Requirements
 - Security
 - Insurance
 - Financial Covenants
 - Transfer of Property
 - Investments
 - Derivatives

Training for Post Issuance Compliance

Bond Covenants and Agreements Compliance

- For variable rate bonds include credit/liquidity provider administration
- Develop internal tickler system from beginning
- Keep up-to-date
- Don't reinvent the wheel with every deal; similar reporting requirements are okay and always preferred
- Keep it simple and consistent as possible

Training for Post Issuance Compliance – Disbursement of Bond Proceeds

- Establish Procedures for Disbursement of Bond Proceeds and Train Staff
 - ▣ Project staff
 - ▣ Finance staff
- Understand eligible expenditures
 - ▣ Working capital limits
 - ▣ Private Activity limits/restrictions
 - ▣ Use of proceeds
 - ▣ Develop procedures for allocation expenditures of bond proceeds to Projects
- Bond Project Monitoring

Training for Post Issuance Compliance – Investment of Bond Proceeds

- Principals of good investment management and understanding of inherent risks in investing bond proceeds critical
 - ▣ Establish good guidelines for permitted investments to reduce credit risk – **SAFETY**
 - ▣ Good cash flow estimates mitigate market risk – **LIQUIDITY**
 - ▣ Integration of knowledge of expected and future market conditions with other cash flows to reduce opportunity risk – **YIELD**
 - ▣ Mirror your existing investment policy or modify it

Training for Post Issuance Compliance – Investment of Bond Proceeds

- Initial investment – generally “*easier part*”
 - ▣ Project cash flows
 - ▣ Capitalized Interest
 - ▣ Debt Service Reserve Fund
 - ▣ Cost of Issuance
- Reinvestment – generally “*really hard part*”
 - ▣ Develop process to monitor and make reinvestment decisions
 - ▣ Use of cash flow expectations v. reality
 - ▣ Does the cash flow pass the smell test

Training for Post Issuance Compliance – Facility/Project Use

- Maintain records of facility use
 - ▣ Follow Record Retention Requirements

- Review all agreements for facility use
 - ▣ Potential impact on tax-exemption

- Everything must be reviewed by bond/tax counsel
 - ▣ Solar panels on roof top or cellular phone receiver on roof top could negatively impact tax-exemption
 - ▣ Operator Agreements for facilities can also impact tax-exemption

QUESTIONS