

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: March 12, 2001

Recommended Action:

Accept the Report of the Banking Committee.

Executive Summary:

The Banking Committee materials, which include a memorandum covering each item in detail, have been furnished to all Board members. During its meeting on March 21, 2001, the Banking Committee is scheduled to consider the approval of the minutes from the February 2001 Banking Committee; receive the Investment and Cash Management Reports for the Quarter Ending December 31, 2000; conduct a performance evaluation of External Investment Fund Managers; receive external audit reports on Revenue Bond Funds at the University of Northern Iowa; and receive internal audit reports.

Background:

Approve Minutes of the February 21, 2000, Banking Committee Meeting

The minutes of the February meeting are included with the Banking Committee materials.

Investment and Cash Management Reports for the Quarter Ending December 31, 2000

The Regent institutions maintain two investment portfolios — operating and endowment/quasi-endowment. Both portfolios include restricted and unrestricted funds.

**Institutional Investment Portfolios
Market Value (Thousands of Dollars)
As of December 31, 2000**

	<u>Operating</u>	<u>Endowment/ Quasi-Endowment</u>
University of Iowa ¹	\$510,635	\$192,255 ²
Iowa State University	225,897	97,452 ³
University of Northern Iowa	66,802	-
Iowa School for the Deaf	1,992	-
Iowa Braille and Sight Saving School	<u>701</u>	<u>-</u>
Total	<u>\$806,027</u>	<u>\$289,707</u>

¹ Includes UIHC.

² Includes UNI.

³ Includes ISD and IBSSS.

As of December 31, 2000, total Regent combined operating and endowment portfolios exceeded \$1 billion for the fourth quarter in a row.

The market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$806.0 million. The university operating investment portfolios performed in line with the comparable industry standards.

Wilshire Associates, the Board's investment advisor, prepares the summary report on the endowment portfolio, which totals \$289.7 million. The combined investment manager returns for the University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios are -1.7% and -1.7%, respectively, for the quarter. The blended asset allocation benchmark posted returns of -3.8% for the quarter. Wilshire reported that the three endowment investment managers were close to their respective benchmarks.

The endowment asset allocations for Iowa State University' portfolio were outside the policy ranges for equities and fixed income. The Board's investment policy requires that institutional officials rebalance the portfolios during the following quarter.

University internal auditors verified that investment purchases of the institutional portfolios during the quarter ended December 31, 2000, and holdings were in compliance with respective Board and institutional investment policies.

Performance Evaluation of External Investment Fund Managers

The Board employs an investment advisor and several money managers to guide its policy of active investment management for institutional funds as detailed in the Regent Procedural Guide. Wilshire Associates has been the investment advisor to the Board and its institutions since May 1996.

The Board's principal endowment fund managers include INVESCO Management, Seneca Capital Management, and Sanford C. Bernstein & Co., Inc. BlackRock is the only external fund manager that invests some of the institutional operating funds.

The Board's investment policy stipulates that the external investment managers for the institutional portfolios shall meet with the Banking Committee, Board Office, and institutional representatives annually to review the investment outlook, structure of their portfolios, and past results. The policy provides that the Board's investment advisor present annually a comprehensive evaluation of the performance of the Board's endowment fund managers.

Representatives from Wilshire and each of the external investment fund managers are scheduled to make presentations.

Revenue Bond Fund Audit Reports (UNI)

Carney, Alexander, Marold, and Co. conducted the three independent revenue bond fund audits — Academic Building, Field House, and Residence System — at the University of Northern Iowa for the fiscal year ended June 30, 2000, as required by the bond covenants.

The audits were conducted in accordance with generally accepted auditing standards to obtain reasonable assurance about whether the financial statements are free of material misstatement.

For each of the University of Northern Iowa's bond audits, the auditor's opinion concluded that the financial statements presented fairly, in all material respects, the financial position of the revenue bond funds as of June 30, 2000, and the results of the operations and changes in fund balances, for the year then ended, in conformity with generally accepted accounting principles for governmental colleges and universities.

Internal Audit Reports

Completed institutional internal audit reports are presented to the Banking Committee as required by Board policy. The Board Office monitors the progress of the institutions' follow-up. When corrective action has been satisfactorily completed, the audits are closed.

One completed internal audit report conducted by the University of Northern Iowa auditors is to be presented to the Banking Committee for the first time.

The UNI internal auditors released two follow-up internal audits which both require additional follow-up: Cash on Hand and UNI Small Business Development Center. The University of Iowa internal auditors completed three follow-up reports that closed the related audits.

The *Status of Internal Audit Follow-Up* table identifies 24 internal audit reports that have previously been presented to the Banking Committee of which 21 still require follow-up. The University of Iowa internal auditors completed three follow-up reports that closed the related audits.


Pamela M. Elliott

Approved: 
Frank J. Stork