

Contact: Patrice Sayre

**MINUTES OF AUGUST 6, 2008
AUDIT/COMPLIANCE AND INVESTMENT COMMITTEE
BOARD OF REGENTS, STATE OF IOWA
MAUCKER UNION, UNIVERSITY OF NORTHERN IOWA
CEDAR FALLS, IOWA**

Committee Members

Jack Evans (Chair)

Bonnie Campbell (absent)

Robert Downer

Michael Gartner

Ruth Harkin

Craig Lang

David Miles

Rose Vasquez

Staff Members

Andrea Anania, Bob Donley, Patrice Sayre, Todd Stewart

The corresponding docket memorandum for each agenda item, an integral component of the minutes, is available on the Board of Regents website: www2.state.ia.us/regents. Copies of these memoranda can also be obtained from the Board Office by calling 515-281-3934.

Chair Evans called the meeting to order at 9:00 a.m.

Approve Minutes from June 12, 2008, Committee Meeting

- MOVED by LANG, SECONDED by DOWNER, to approve the minutes of the June 12, 2008, meeting. Motion APPROVED by GENERAL CONSENT.

Receive Reports on Internal Audit

FY 2008 AUDIT PROGRESS AND FY 2009 AUDIT PLANS

Internal Audit Director Todd Stewart reviewed the FY 2008 audit progress and discussed the FY 2009 internal audit plans. Director Stewart stated that the FY 2008 progress was largely successful in meeting goals while continuing to have unmet staffing needs. Internal Audit staff participated in several special investigations in concert with the State Auditor's Office and expected them to wrap up in a few months. These audits concerned alleged improprieties with staff that incurred on all three campuses.

For the FY 2009 Internal Audit Plan, staff conducted risk assessment meetings at all campuses, focusing on the highest level of risk, reduction of the risk of negative impacts, and where internal audit could add value. The new plan reduces the number of audits slightly, but each auditor will do approximate 1500 hours of audit work. Director Stewart then highlighted some audits planned for each university and noted that due to additional staff at UNI, the number of audits will increase.

Regent Downer asked about the size of internal audit staffs at each of the three universities and stated that in regard to the size of the universities, staff appears light.

Director Stewart agreed, saying that staff size at Iowa State University is the biggest challenge, having to rebuild staff since his appointment as Director, and having recently lost a member, he is back into the recruitment process. He said he and President Geoffroy are working on this. Staffing is an ongoing challenge. Audit staff at the Big 12 institutions vary, some have 2; more typically, they have 4 - 7. He said the biggest need was for an IT specialist and he'd keep working toward that goal.

INTERNAL AUDIT REPORTS

Internal Audit Director Todd Stewart discussed the audit reports presented this month, highlighting the following:

1) UI Health Care Conflict of Interest

Regent Lang stated Director Stewart has made good recommendations and asked what will be the reporting mechanism and how will it be done, and if it would get back to internal audit. Director Stewart responded that UIHC will create a management plan, working with central administration and internal audit staff will follow up after that plan is finished.

President Miles asked, on the matter of attestation for faculty members for outside activity, why it will take until July 2009 to respond to the audit; why a full year? Director Stewart responded that he did not know if the reason was that a database had to be built or software brought on line. President Miles asked for a follow up from President Mason.

President Miles asked for more information about blanket purchase orders for high dollar purchases and if it was clear how changes were to be implemented when is it a high dollar purchase order. Director Stewart responded he was not sure how it will work out, but management would develop a policy. President Miles would like to hear more about this as it develops. Director Stewart pointed out that the FY 2009 audit plan calls for more review of blanket purchase orders and also noted that the University has been working towards reducing the number of these purchase orders through the use of p-cards and technology. Regent Lang wondered if there were listed items within blanket purchase orders. Director Stewart will continue to audit this purchasing mode.

2) College of Dentistry

Internal audit made recommendations on the process and functionality of the billing system and the practice of courtesy discounts, the latter totaling \$120,000 in the first eight months of the year under audit. Upon the internal audit finding, the college discontinued the discounts. There also was a finding on pre-verification of insurance coverage for patients to lower denials. Regent Lang asked for clarification of courtesy discounts, concerned that people who can't afford care would be harmed as it was a very important service. Director Stewart explained that the courtesy discounts were different from reduced fees for qualifying patients.

3) Biosafety of Select Agents

4) Hong Kong MBA Program

Director Stewart said that this report arose during the year and had several findings to be addressed. Regent Downer said that it appears the findings were of some consequence and asked how many similar programs enterprise-wide should be looked at for compliance, and this is an area to be given priority. Director Stewart noted that was a good point, and clarified that this was different than continuing education and he did not know how many similar programs there were. Regent Downer reiterated that since these findings were of some significance, perhaps these types of programs bear further looking.

President Miles noted that the accounting issues can be addressed very ably, but questioned the management response on the last finding on General Fund fees that no response is required by CBA, saying that it should be interpreted that we still want a response from UNI administration. Director Stewart agreed and drew attention to additional language in the audit report on this.

President Miles asked if there was anything in the tone of management's response that indicated a lack of cooperation and pointed out that internal audit has the full support of the Board of Regents and that the Board fully anticipates that folks embrace your work. He thanked Director Stewart and the internal audit staff for their work on this.

On the status of follow-up audits, President Miles asked about the report on Institutional Animal Care, seeking clarification if the language in the report means the audit is closed. Director Stewart said the audit was closed and that it was an error not to use consistent language. President Miles supports consistent language and the use of the word "closed."

Chair Evans noted that he had met with Director Stewart and had gone over every audit report.

Director Stewart told about a meeting with Chair Evans, President Miles, and Board Office staff to discuss protocol for follow-up audits. He is contacting peer institutions and will develop a process to propose to the Board in October. He finished on follow-up audit reports giving status reports.

Regent Downer asked why the Outback Bowl report was not given a high priority as the audit report was issued two years ago and expressed concern over potential backlogs. Director Stewart responded that if the issue is a policy one, corrections can be made to the policy to comply with the audit finding, however, in the case of non-compliance with the policy, which this was, until there is another bowl game, testing compliance is not possible.

- MOVED by MILES, SECONDED by GARTNER, to receive the reports and recommend that the Board approve the FY 2009 Internal Audit Plan. MOTION APPROVED UNANIMOUSLY.

Asset Allocation Policy – Update on Progress

ISU Vice President Warren Madden stated that one of the most important things that the Audit/Compliance and Investment Committee does is approve and develop an asset allocation policy. There is a need to address the investment policy in light of financial instruments available now that didn't exist a number of years ago and to understand them. Working with Wilshire, we know that our endowment portfolio is not broadly representative of what is out there today. Global and new markets have opened up, and our portfolio is not reflective of that and fairly conservative. In particular, commodities, timber and oil assets have improved performance in other endowment portfolios.

It is possible that investment policy changes will be needed as it has been about four years since we looked deeply into this. If any legislative changes are required, we will need to work our way through that and outline those, too. We wish to make an informed set of decisions, which can be challenging as the market responds to the mortgage crisis.

- The Committee received the report by GENERAL CONSENT.

SUI Operating Diversified Pool Strategy

Doug True reported on the work SUI has been doing with Wilshire Consulting to improve non-endowment fund performance. A diversified pool strategy is emerging as a viable concept for funds not needed for liquidity. The strategy will reflect best practices and be more in line with peer institutions' practices. Instead of relying on fixed income for intermediate funds, there will be more asset classes that will lower risk, greater returns (as much as 75 basis points) and less volatility as shown by reviewing historical performance. Funds will likely be allocated 85% to Fixed Income, 15% to non-traditional (8% US Equity; 2% International Equity, and 5% Real Estate.)

SUI's internal investment advisory committee, consisting of faculty members and staff, has studied this proposal and supports it. The concept is not a substitute for liquidity investments, which is managed to meet cash flow needs. One of the attractions to the diversified pool is it is less expensive to manage. Right now we pay about 15 basis points to the current investment firms; this proposal should see those fees cut in half. A written final report will be given at the September meeting.

- The Committee received the report by GENERAL CONSENT.

Renewal of Associated Bond Contracts

Under the current contract with various bond advisors, it is time to renew the respective contracts for another year as of September 1, 2008. Regent staff Joan Racki presented this item and reported that all institutions and the Board Office are satisfied with the performance of Ahlers & Cooney, Springsted, Inc., and Behrens-Tate Consulting Group and support renewal of the contracts.

Regent Gartner asked how reimbursement fees are set; hourly, set fee, or percent of bond issue. Joan Racki replied that fees are based on the size of the issue. If we don't sell the bonds, bond advisors are paid for whatever consulting services given on an hourly rate.

Regent Gartner queried further as to why fees are paid on a percentage instead of a negotiated flat fee. Ms. Racki replied that the contract provides for both an hourly rate and/or a flat fee. Typically Springsted receives fees amounting to .11% of the total bond sale, while Ahlers & Cooney receive .14%. Regent Gartner asked if this was the usual way to pay, to which Regent Downer replied that he and Regent Vasquez were on the committee that reviewed these firms, and of the three law firms that submitted proposals, Ahlers & Cooney were the lowest bidder. Further, Regent Downer stated that the rate Regents pay for this consulting work is relatively low, on an hourly rate basis, compared to law firms of that size in the Des Moines area and also it isn't a flat percentage, but graduates on the size of the of the bond issue.

Regent Gartner responded that he was not arguing the fees, but wondering if this process was the best way to do it, to which Doug True replied that it was a sliding scale and that in the last bidding process, all responders were given a model portfolio and asked to show how their fees would be calculated

Regent Gartner asked if the Board of Regents sell more bonds than any other state agency. Ms. Racki said she believes so on an annual basis.

Regent Gartner had a follow up question as to why Behrens-Tate was needed for arbitrage services instead of using Springsted. Ms. Racki said Springsted bid on the arbitrage services when the last request for services was issued. Four proposals were received and the Committee chose Behrens-Tate.

Vice President Madden commented that Ahlers & Cooney and Springsted do a great deal of consulting with the universities on future potential for projects to be financed and that those support services are given without fees.

Regent Lang asked if, when these support services are given, is there a letter of engagement? Vice President Madden responded that there was no cost charged for early feasibility stage discussions; if the project becomes a major one, then it moves into an hourly rate. Vice President Madden added that the universities are more pleased today than in the past with respect to support from both firms.

- **MOVED by DOWNER, SECONDED by LANG, to recommend that the Board approve renewal of the three associated bond contracts. MOTION APPROVED UNANIMOUSLY.**

Review University Hygienic Laboratory Pricing Policy and Process Position Statement

During a June 2007 internal audit, it was noted that the University Hygienic Laboratory did not have a pricing policy. Patrice Sayre presented a proposed schedule to the Board on behalf of the Hygienic Laboratory. The Hygienic Lab worked with the Iowa Department of Health to establish pricing.

President Miles noted there were prices with no listing and asked why. Chris Acheson, Director of the Lab, responded that in many cases they are using Medicaid/Medicare charges for the starting point for the new policies. In many cases, Medicaid/Medicare do not have those charges for certain areas and that the Hygienic Laboratory would fill in those blank prices as they get more information and discuss appropriate charges with the Iowa Department of Public Health.

- **MOVED by GARTNER, SECONDED by HARKIN, to recommend that the Board approve the University Hygienic Laboratory pricing policy. MOTION APPROVED UNANIMOUSLY.**

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