

BOARD OF REGENTS
BANKING COMMITTEE

March 13, 2002

The Banking Committee of the Board of Regents met on Wednesday, March 13, 2002, at Iowa State University, Ames, Iowa.

Those present were:

Banking Committee members: Regents David Fisher (chair), Amir Arbisser, Mary Ellen Becker, David Neil, and Owen Newlin.

Others in attendance were:

Institutional representatives: Mary Sue Coleman, Douglas True, Ann Madden Rice, Terry Johnson, Gregory Geoffroy, Warren Madden, Mark Chidister, Margaret Pickett, Sheryl Rippke, Brad Dye, Robert Koob, Gary Shontz, Jim Heuer, Luann Woodward;

Ed Bittle, Ahlers law firm;

Barry Fick, Springsted;

Mark Brubaker, Wilshire Associates;

Board Office: Greg Nichols, Pamela Elliott, Joan Racki, Deb Hendrickson, and Barb Briggle.

Regent Fisher called the meeting to order at 1:02 p.m.

APPROVE MINUTES OF THE JANUARY 2002 BANKING COMMITTEE MEETING.

MOTION: Regent Neil moved to approve the minutes of the January 16, 2002, Banking Committee meeting, as written. Regent Becker seconded the motion.
MOTION CARRIED UNANIMOUSLY.

INVESTMENT AND CASH MANAGEMENT REPORTS FOR THE QUARTER ENDING DECEMBER 31, 2001.

Director Elliott stated that, as of December 31, 2001, total Regent combined operating and endowment portfolios exceeded \$1.1 billion. The market value of the combined operating portfolios totaled \$825.2 million. She reported that the university operating investment

portfolios performed in line with comparable industry standards. She said Mark Brubaker of Wilshire Associates would provide the Banking Committee members with a review of the quarterly report.

The endowment portfolio totals \$319.2 million. The combined investment managers' returns for the University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios were -5.9 percent and -5.7 percent, respectively, for the year. The blended asset allocation benchmark posted returns of -6.2 percent for the year. The quarterly returns were 8.0 percent and 7.5 percent respectively, with the benchmark for the quarter at 7.2 percent. Wilshire reported that the three endowment investment managers were close to their respective benchmarks.

Regent Fisher noted that the Board of Regents delegates the authority for monitoring institutional investment and treasury management practices and performance to the Banking Committee. Each year, the investment advisors come forth with recommendations regarding the fund managers. He referred the members to information contained in the meeting materials.

Mr. Brubaker provided information related to the capital market review including major asset class returns (equity and fixed income) and risk versus return. He said this has been a very rough year for the markets. The last couple of weeks in the equity market have been very strong. He noted that real estate was the top-performing asset class for the year. He stated that the Board of Regents allocation to international equities is low compared to its peers. The under-weighting has helped the returns over the past 10 years. International returns have been disappointing relative to U.S. stocks for the quarter. Although Japan has had negative returns, it has bounded back with strong returns recently. With regard to total fund results, Mr. Brubaker said the longer-term numbers have been excellent: 1 percent per year above the median endowment. Relative to the policy benchmark and relative to peers, the results have been strong. The Board's international equities fund manager, Sanford Bernstein, has a distinct value style. Value has been favored in recent years.

President Newlin asked how much of the Regent portfolios should be allocated to the real estate investment trust (REIT). Mr. Brubaker explained that REIT is a sector within the U.S. small caps. Therefore, the Board's two small cap managers invest in REIT when they look attractive. He noted that this was one of the areas where there is more than one way to "skin a cat". He said the Board hired a small cap manager in January although it had not yet received funds. He next reviewed small cap versus large cap returns and value versus growth stocks in the domestic equity markets. He cautioned that the Banking Committee should not expect dramatic out-performance of one style versus another going forward.

With regard to fixed income, Mr. Brubaker said the Federal Reserve cut the prime interest rate 11 times in the last year. With regard to total fund results for the period ended December 31, 2001, he noted that the numbers did not include the Principal proceeds.

President Newlin congratulated Mr. Brubaker on putting the total fund results on one page in a concise manner.

Mr. Brubaker reviewed the three major composites of the University of Iowa and Iowa State University endowment funds: domestic equity, balanced composite, and international equity.

President Newlin asked if the Principal money had arrived in December. Mr. Brubaker responded affirmatively. He said the funds were currently invested in a money market account.

ACTION: Regent Fisher stated the Banking Committee received the Investment and Cash Management Reports for the quarter ended December 31, 2001, by general consent.

PERFORMANCE EVALUATION OF EXTERNAL INVESTMENT FUND MANAGERS.

Mr. Brubaker provided an update with respect to fund manager firms prior to representatives of the firms making presentations to the Banking Committee. He stated that Sanford Bernstein is now Alliance Bernstein. There have not been any changes to the portfolio management team as a result of the change in ownership of the firm. There have been no changes to key people at Seneca Capital Management. He noted that Seneca had a rough year last year, particularly in the second quarter when returns were 17 percent behind the benchmark. He suggested that, during the firm's presentation, the Banking Committee members may want to hone in on what drove that decline. BlackRock, the Board's operating cash manager, is owned by The PNC Financial Services Group. A piece of the company was taken public a couple of years ago. The CEO made waves about wanting to get more equity out of the hands of the parent company, PNC. He stated that George Hauptfuhrer has left Invesco. His departure has less significance than it might have since Invesco is no longer using the balanced approach.

Vice President True suggested the return for BlackRock last quarter also be addressed.

AllianceBernstein (formerly Sanford Bernstein), Manager since 1999.

Jonathan Mann and Robert Prusiewicz of AllianceBernstein joined the meeting.

Mr. Prusiewicz reviewed the performance summary for the three endowment funds (University of Iowa, Iowa State University, and Miller) for 2001 and since inception (June 16, 1999). He discussed the performance objective and investment approach for the funds. The intention is to outperform the benchmark by 300 basis points. Performance is achieved through stock selection. He discussed Bernstein's risk controls.

President Newlin asked if the Miller endowment is shared between Iowa State University and the University of Iowa. Vice President True responded affirmatively, noting that the split was 50/50 between the universities.

Mr. Mann said the firm prefers to work with 100-110 stocks; the portfolios currently contain 125 stocks. Reducing the number of stocks will not compromise risk control or increase volatility. With regard to a performance overview, AllianceBernstein is hoping to begin seeing a turn in international equities as an asset class. The numbers are becoming encouraging. He provided the Banking Committee members with updated performance statistics through the end of February. He said international equities is one of the strongest markets in an unusually positive year. Due to the under-weighting in technology, he expects the returns will continue to be positive. With regard to the asset class, he stated that, over the last 5 years, the U.S. market has returned 11 percent and the EAFE 1 percent. The two driving influences were the dollar being strong and Japan stocks being cheap.

Mr. Brubaker asked about the regulatory and macro environment of the markets. From a market environment, how do Europe or Asia compare to U.S. in terms of regulations and growth? Mr. Mann said they are getting closer. One of the benefits of the movement toward the Euro and a common market is that countries are forced to stay within a certain band of how large they can run their deficits. He anticipates that the world economy will probably do better sooner rather than later.

President Newlin referred to Bernstein's exhibit of currency, and asked that, in the future, it show the index. Mr. Mann said they would do so.

Mr. Mann discussed market leadership shifts since 1984. He noted that emerging markets are very inexpensive. On the exhibit of sources of relative return for 2001, he said there was a mistake. "Currency management" should not be included in the bar showing international value relative return. He stated that he was most proud of the fact that Bernstein's 2001 premium was driven by stock selection which was strong both across

sectors and across markets. He next provided the example of Electrolux as the Pan-European model. He described results from a restructuring of Electrolux.

President Newlin asked where Electrolux is headquartered. Mr. Mann responded that its headquarters is in Sweden.

Mr. Mann discussed new opportunities in telecom. With regard to restoring profits in Japan, he provided the example of Oji, a paper company. He next discussed strong stock selection in weak environments. He said that, despite global economic weakness during 2001, stocks in economically sensitive industries performed quite well in many markets.

Mr. Brubaker asked what type of stocks in Japan are leading the way in 2002. Mr. Mann responded that the exporting-oriented companies are leading the way, particularly since the yen has been so strong over the last few years.

Mr. Mann reviewed statistics regarding the Regent portfolios, noting that value-oriented equities look "cheap" internationally.

Vice President True asked if the "fuss" over steel imports was having any effect on how that market is viewed. Mr. Mann responded that steel, itself, is not the concern. Any time there is news of regulations, there is widespread concern.

AllianceBernstein representatives were excused.

Invesco, Manager since 1989.

Invesco representatives Jim Baker and Terry Irrgang joined the meeting.

Mr. Baker first addressed the departure of George Hauptfuhrer from Invesco, noting that Mr. Hauptfuhrer had enjoyed working with the Iowa accounts. Next he presented a summary of the fixed income market. He noted that bonds had provided the portfolios with protection in a volatile equities market. He provided a market overview including total return by sector, by quality and by maturity.

Mr. Irrgang provided a "snapshot" of equity market returns, noting that he was fairly optimistic for 2002. He said valuations were more attractive than they had been the last couple of years. He noted that there had been 11 Federal Reserve rate cuts in the last year. Four quarters of GDP growth were forecasted for this year. The resale value index did a little better than growth stocks in 2001. He referred to the EAFE index and said international equities were particularly dismal. He then discussed the equity market summary that was provided in Invesco's materials.

Mr. Baker presented the portfolio summaries. He discussed the asset growth of the portfolios, as well as performance. He then presented a summary of the Iowa State University 93 trust portfolio.

President Newlin noted that the funds used to create the Iowa State University 93 trust were from the sale of WOI television.

Mr. Baker discussed the portfolio summary for the University of Iowa quasi I and quasi II accounts. He stated that, year to date through March 8, the returns for all portfolios were up about 2 percent whereas, at the end of February, the returns were negative.

Mr. Irrgang reviewed the equity portfolio characteristics. The Iowa portfolios managed by Invesco outperformed the S&P by 6 percent last year. He stated that, in 2001, 25 stocks in the S&P 500 declined by 30 percent or more in one day. He said Invesco did not hold any of those stocks. He next discussed the sector weights of the portfolios and where Invesco representatives do and do not see value in the market.

Mr. Baker referred to fixed income portfolio averages, and said the Iowa portfolios have a little higher quality than the index overall. He presented a profile of the bond portfolios which have a bias toward high quality.

Mr. Brubaker asked, if there is recovery in the U.S. economy, if Invesco plans to shift the portfolios away from the high-quality bias. Mr. Baker responded affirmatively. He said the duration of the portfolios is being increased by 1/10th of a year. The next step, when the economy is more firmly in place, would be to begin to add to the core exposure.

President Newlin stated that the Banking Committee members had always enjoyed working with George Hauptfuhrer. They appreciated what he did to help in the management of the Regent accounts. He asked that the Invesco representatives give Mr. Hauptfuhrer the Regents' "best".

Invesco representatives were excused.

Seneca Capital Management, Manager since 1995.

Seneca Capital Management representatives joined the meeting. It was noted that the Regents had invested funds with Seneca since May 1995.

Susan Stannard presented an organizational update of Seneca Capital Management. She stated that a new class of phantom equity holders had been added. The phantom equity

holders are potential partners or people who are valued in the business. Eight new principals had been named at the firm this year. She reviewed Seneca's investment guidelines, investment objective, investment philosophy and investment approach. Next she reviewed portfolio characteristics including comparisons with indices, portfolio holdings, top-performing stocks and economic sectors versus indices. She discussed what worked in 2001. She said Seneca is a bottom-up oriented stock selector. Seneca only held one company that was directly "hit" by September 11. Consumer discretionaries were hit hard after September 11. All in all, the portfolios held up very well. One of the areas in which the portfolios were hurt in the last year was in the life sciences. If there was any hint of negativity in a sector, the value of the stocks went down quickly. Year to date, the portfolios were positive. It was Seneca's view that the U.S. is coming out of the recession. Corporate CEOs are still behaving very conservatively. There are more accounting disclosures since the Enron situation.

Regent Fisher stated that he spent two days at the Federal Reserve in Chicago the previous week, and he would echo the comments that the U.S. is coming out of the recession. He said heavy manufacturing is still over capacity, but the consumer is back in the market. Business investment is still lagging somewhat.

Ms. Stannard responded that business investment was starting to increase on the margin.

Ms. Stannard then reviewed last year's performance and said the portfolios were currently up about 10 percent.

President Newlin referred to the portfolio performance table (page 10 of Seneca's booklet) and asked that, in the future, dollars also be shown. He also asked that, next time, a one-page table be included that shows performance for the previous quarter, one year, three years, five years and since inception, in both percent and dollars, relative to Seneca's performance.

Regent Neil asked if the economy is less bad or getting better. Ms. Stannard responded that the economy is getting better, even in Silicon Valley.

Regent Neil noted that Ms. Stannard was looking at the U.S. view versus the Iowa view. Ms. Stannard said she did not think that Iowa was hit as hard initially by the recession.

Mr. Brubaker asked about the participation of Gail Seneca in the Seneca Capital Management firm. Ms. Stannard responded that Ms. Seneca remains the Chief Investment Officer and is still incredibly involved in the firm.

Mr. Brubaker noted that there were a few dramatic shifts in stock holdings. In the current portfolio, energy is down to zero and information technology was ramped up for a 5 percent overweighting. He asked what drove those decisions.

Ms. Stannard responded that when a slowdown in the energy/natural gas area began during the last part of 2001, Seneca began reducing those holdings. Seneca also began seeing improvements on the margin in the technology area especially in semiconductors. Therefore, rotations were done in holdings in those areas.

Ms. Stannard was excused from the meeting, and representatives of BlackRock joined the meeting.

BlackRock Funds, Manager since 1996.

Cheryl Sylwester referred to the organizational structure of BlackRock and said there had been no significant changes. The organization continues to grow. The business is very strong with \$239 billion under management. All eight founders are still active within the firm. With regard to performance in the market, she stated that, in 2001, the Federal Reserve cut the interest rate 11 times. She presented a graph illustrating what happened to the U.S. Treasury yield curves. BlackRock's position on the yield curve was biased toward the longer part of the yield curve. She said asset-backed securities did very well in the last year. She discussed the characteristics and performance, net of fees, of the various Regent portfolios under management. The portfolios under-performed during the year, most of which came in the fourth quarter. However, they were off to a very good start in 2002. Through February, returns were above the index by 30 basis points, net of fees.

Mr. Brubaker about the performance of the Regent portfolios in relation to all of the short-term portfolios managed by BlackRock. Was there anything unique about the guidelines, for example?

Ms. Sylwester responded that returns have either been in line with the benchmark or under the benchmark because of the position on the yield curve. The short duration composite outperformed other portfolios.

Vice President True asked about an exhibit which included information on effective convexity. Ms. Sylwester responded that effective convexity is seen with mortgages, especially. As duration decreases on mortgages, the price will move down when people start prepaying their mortgages. Generally, when bonds do well, mortgages have a negative convexity. Convexity can be good in a positively-convex security.

Vice President True asked about increased corporate holdings. Ms. Sylwester stated that BlackRock representatives are opportunistically looking to add high-quality names to the portfolios. They are looking for opportunities to increase that exposure while maintaining a high-quality bias.

President Newlin asked that, in the future, the Banking Committee be presented with a one-page summary that shows the total Regent funds under management, each of the three funds separately, and the performance of each fund.

Ms. Sylwester was excused from the meeting.

Mr. Brubaker provided concluding remarks. He said this would be the last review under the current asset allocation structure. With regard to Seneca's underperformance in 2001, he thinks they were a little "whipsawed". He said that is going to happen given their earnings momentum style. With regard to Invesco, he suggested closer oversight on the fixed income portfolio. He said BlackRock's operating portfolios' longer-term numbers are now below the index. He did not recommend any action but said they need to keep a close eye on those results.

President Newlin asked about the performance of Reams Asset Management to date. Mr. Brubaker said Reams was five basis points behind the index in the fourth quarter. He did not know how Reams had done so far in calendar year 2002, and noted that it was too early to really judge their performance.

ACTION: Regent Fisher stated the Banking Committee received reports from the Board's investment advisor and its external investment fund managers, by general consent.

RESOLUTIONS FOR THE SALE OF \$12,755,000 STUDENT UNION REVENUE BONDS, SERIES UNI 2002.

Controller Shontz said he anticipated receiving a good true interest rate for the bonds.

Mr. Fick stated that interest rates had increased some in the last few weeks but he still anticipated the receipt of very good rates.

Controller Shontz noted that Moody's had increased the University of Northern Iowa's bond rating from A3 to A2.

ACTION: Regent Fisher stated that Banking Committee, by general consent, recommended that the Board adopt the following

resolutions, subject to receipt of acceptable bids:
(1) A Resolution providing for the sale and award of \$12,755,000 Student Union Revenue Bonds, Series U.N.I. 2002, and approving and authorizing the agreement of such sale and award. (2) A Resolution authorizing and providing for the issuance and securing the payment of \$12,755,000 Student Union Revenue Bonds, Series U.N.I. 2002 to pay the costs of constructing additions to, remodeling and refurbishing, equipping and furnishing the J. W. Maucker Student Union, paying costs of issuance and funding a reserve fund.

PRELIMINARY RESOLUTION FOR SALE OF UP TO \$14,800,000 ACADEMIC BUILDING REVENUE REFUNDING BONDS, SERIES SUI 2002.

Vice President True stated that this refunding was of bonds originally sold in 1992 to support construction of the Pappajohn Business Building.

Mr. Fick stated that the refunding analysis was updated the previous day. The potential savings was still approximately 8 percent on a present value basis.

President Newlin asked if savings were estimated at \$2.4 million. Mr. Fick responded that estimated savings were \$1.9 million gross for the University of Iowa and \$1.4 million for the present value.

Director Elliott noted that these refunding bond issuances would not extend the life of the issues. She said that is an issue with the legislature.

MOTION: Regent Neil moved to recommend that the Board adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$14,800,000 Academic Building Revenue Refunding Bonds, Series S.U.I. 2002. Regent Becker seconded the motion. MOTION CARRIED UNANIMOUSLY.

PRELIMINARY RESOLUTION FOR SALE OF UP TO \$5,000,000 ACADEMIC BUILDING REVENUE REFUNDING BONDS, SERIES UNI 2002.

Controller Shontz stated that this sale was similar to that of the University of Iowa to refund bonds from an earlier sale.

MOTION: Regent Neil moved to recommend that the Board adopt A Resolution authorizing the Executive Director to fix the date or dates for the sale of up to \$5,000,000 Academic Building Revenue Refunding Bonds, Series U.N.I. 2002. Regent Arbisser seconded the motion. MOTION CARRIED UNANIMOUSLY.

COSTS OF BOND ISSUANCES.

Associate Director Racki reported on issuance costs for the Memorial Union Revenue Refunding Bonds, Series S.U.I. 2001, and Field House Revenue Bonds, Series U.N.I. 2001. She stated that, at its January 2002 meeting, the Banking Committee requested that actual costs be detailed by fees paid to Springsted and Ahlers, and other expenses. The requested information for calendar years 1999 – 2001 was included in this month's information.

Regent Fisher referred to the \$12,075 bond counsel cost for the University of Iowa's sale of \$4.8 million Memorial Union Revenue Refunding bonds, and the \$7,550 bond counsel cost for the University of Northern Iowa's \$5.6 million Field House Revenue bonds. He asked why the cost would be so much more for a smaller issue.

Mr. Bittle stated that a new prototype bond resolution for self-liquidating bonds was developed for the University of Iowa sale. The new bond resolution will be used going forward.

President Newlin asked if this was a one-time expense. Mr. Bittle responded affirmatively.

Regent Neil asked about enrollment projections for the University of Northern Iowa bond sale. Mr. Shontz said the conservative estimate was 11,750 for the academic year and 3,500 for the summer session.

Regent Neil asked if the other two universities project conservatively their enrollments for the purpose of bond sales. Vice President True stated that the University of Iowa uses 25,000 but the FTE is 28,800.

Vice President True stated that, if a standard is being established, there should be some cost sharing. He did not believe that all of the cost of developing the prototype bond

resolution should be borne by the one University of Iowa issue. Mr. Bittle said the self-liquidating resolution will be used for the University of Northern Iowa student union bond sale and for parking revenue bonds at Iowa State University. There can be discussion about the cost being allocated.

Vice President True said university officials will work it out.

ACTION: Regent Fisher stated the Banking Committee received the report on the issuance costs related to Memorial Union Revenue Refunding Bonds, Series S.U.I. 2001, and Field House Revenue Bonds, Series U.N.I. 2001, by general consent.

REIMBURSEMENT RESOLUTION, MEDICAL EDUCATION BUILDING – RENOVATE FOR PHYSICAL THERAPY.

Vice President True stated that University of Iowa officials requested adoption of a resolution which will permit the University to be reimbursed for the renovation of the Medical Education Building for Physical Therapy project from a future bond issue of the University of Iowa Facilities Corporation or another financing. He noted that this project was previously presented to the Board and the Board has approved a number of capital improvement procedural steps.

Regent Neil asked why University officials want to sell bonds for the project. Vice President True responded that bond proceeds help meet the cash flow needs. Also, it will allow the new building project to be bid later this year. The reimbursement resolution preserves the opportunity to use bond proceeds. The use of tax-exempt debt versus taxable debt lowers the cost to the University.

MOTION: Regent Newlin moved to recommend that the Board adopt A Resolution declaring an official intent under Treasury Regulation 1.150-2 to issue debt to reimburse the State University of Iowa for certain original expenditures paid in connection with specified projects. Regent Neil seconded the motion. MOTION CARRIED UNANIMOUSLY.

PURCHASE AND MASTER LEASE FINANCING – SCOREBOARD AND VIDEO DISPLAY SYSTEM, JACK TRICE STADIUM.

This matter was tabled until next month.

UPDATE ON ISU COLLEGE OF DESIGN COMPUTER LEASE PROGRAM.

Vice President Madden stated that the participation rate in the computer lease program was somewhat below the anticipated rate because of the lead time. University officials requested authorization to continue the computer lease program for another year.

Regent Fisher asked for the participation rate. Dean Engelbrecht responded that 250 students were eligible and 88 participated. He believes that future participation will be higher because the program got off to a late start last year. Information was not disseminated in a timely fashion. Surveys were conducted of students who have the machines and the majority would do it again. More in-depth surveys will be conducted in the summer. College officials believe that participation in the computer lease program will accelerate and they want to be prepared for that.

Regent Arbisser asked if the equipment is issued to students once they sign the lease. Dean Engelbrecht responded that the computer lease program is offered on a yearly basis in the fall for first-year students in the program.

Regent Arbisser asked if machines from the past year are "sitting in closets". Dean Engelbrecht responded that the machines are ordered from the company as the students order them.

Vice President Madden said the College has virtually no inventory.

MOTION: Regent Neil moved to recommend the Board approve the College of Design at Iowa State University to continue to offer a computer lease program to students, subject to submission of financing plans. Regent Becker seconded the motion. **MOTION CARRIED UNANIMOUSLY.**

REVENUE BOND AND NOTE FUND AUDIT REPORTS.

Director Elliott stated that the revenue bond and note fund audit reports of Iowa State University for the year ended June 30, 2001, indicated that the financial statements of each of the revenue bond and note funds were presented fairly in all material respects. No findings were reported regarding financial or compliance issues.

ACTION: Regent Fisher stated the Banking Committee, by general consent, received the following Iowa State University Revenue Bond and Note Fund Audit reports for the fiscal year ended June 30, 2001: Academic Building, Dormitory and Dining Services, Hilton Coliseum, Ice Arena Facility (note), Recreational Facility, Student Health Facility, Telecommunications Facilities and Utility System.

EXTERNAL AUDIT REPORT – UNIVERSITY OF IOWA HOSPITALS AND CLINICS.

Interim Director Rice stated that the audit work was completed in November 2001. There were no findings. She noted that the report was presented on an accrual basis.

Regent Fisher asked Vice President True if the Banking Committee serves as the Board of Regents audit committee. Vice President True responded affirmatively.

Regent Fisher asked, in light of the problems that have come to light nationally regarding the auditing firm of Arthur Anderson, whether it would be prudent for the external auditors to attend the Banking Committee meeting at which their audit report is reviewed. Vice President True responded that all of the audits of the Deloitte auditing firm could be presented to the Banking Committee at one time. He noted that Deloitte is responsible for ten University of Iowa audits. If it is the preference of the Banking Committee, University of Iowa officials could group the audits by auditors for presentation. Interim Director Rice stated that it is standard industry practice for auditing firms to present their reports to audit committees.

President Newlin asked if any of the institutions have used the Arthur Anderson firm. Assistant Vice President Pickett stated that Arthur Anderson performed some services for Iowa State University about four or five years ago.

Controller Shontz stated that the University of Northern Iowa utilizes local auditors for its bond fund audits.

Regent Fisher stated that in private sector businesses there are audit committees that deal with internal audits. Director Elliott reminded the Banking Committee members that the Board of Regents is governed by the Iowa Open Meetings law. She reminded the Banking Committee members that institutional audits are reviewed normally by the Banking Committee when the Committee meets on the individual campuses.

ACTION: Regent Fisher stated the Banking Committee received the external audit report for the University of Iowa Hospitals and Clinics for the years ended June 30, 2000, and 2001, by general consent.

INTERNAL AUDITS.

Internal Auditor Rippke stated there was nothing unusual to report concerning the internal audit reports presented this month. She said the Iowa State University internal auditor's office has experienced a change in staffing due to budget cuts. The number of auditors was reduced from 3 to 2 which will impact the level of service that her office can provide.

Regent Fisher asked for the amount of reduction in audits. Internal Auditor Rippke responded that there will be at least two less audits performed and some audits may take longer than anticipated to complete. She said the audit plan for this year will not be completed.

Regent Fisher asked that the Banking Committee be kept up to date on the impact of the staff reduction on the audits.

Director Elliott stated that, in July, the university internal auditors will be at the Banking Committee meeting to discuss progress on their current year plan and to present their plans for the next year.

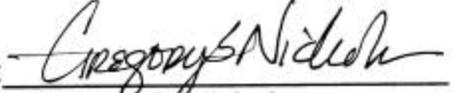
ACTION: Regent Fisher stated the Banking Committee, by general consent, (1) received the following three internal audit reports from Iowa State University: Athletic Business Office, Department of Animal Science, and Veterinary Diagnostic and Production Animal Medicine; and (2) received the report on the status of the internal audit follow-up reports, including four follow-up reports.

ADJOURNMENT.

The meeting of the Regents Banking Committee adjourned at 3:20 p.m. on
March 13, 2002.



Pamela M. Elliott
Director, Business and Finance

Approved: 

Gregory S. Nichols
Executive Director

bb/f.winword/302bank