

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: June 1, 2001

Recommended Actions:

1. Approve:
 - a. Selection of financial advisor and provider of arbitrage rebate services;
and
 - b. Selection of new fixed income manager.
2. 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 June 12, 2001, the Banking Committee is scheduled to consider the approval of the minutes from the May 2001 Banking Committee, the selection of the financial advisor and the provider of Arbitrage Rebate Services, and the selection of a new fixed income manager.

The Banking Committee is also scheduled to receive the quarterly cash and investment report, the Ice Arena Facility Revenue Note Fund Audit, and the internal audit reports (ISU).

Background:

Approve Minutes of the May 2001, Banking Committee Meeting

The minutes of the May Banking Committee meeting materials will be mailed under separate cover.

Investment and Cash Management Reports for the Quarter ended March 31, 2001

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 March 31, 2001**

	<u>Operating</u>	<u>Endowment/ Quasi-Endowment</u>
University of Iowa ¹	\$538,453	\$194,241 ²
Iowa State University	256,646	90,682 ³
University of Northern Iowa	64,651	-
Iowa School for the Deaf	1,893	-
Iowa Braille and Sight Saving School	<u>643</u>	<u>-</u>
Total	<u>\$862,286</u>	<u>\$284,923</u>

¹ Includes UIHC.

² Includes UNI.

³ Includes ISD and IBSSS.

As of March 31, 2001, total Regent combined operating and endowment portfolios exceeded \$1 billion for the fifth quarter in a row.

The market value of the combined operating portfolios, as reported by the Regent institutions, totaled \$862.3 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 \$284.9 million. The combined investment manager returns for the University of Iowa (excluding the quasi-endowment) and Iowa State University endowment portfolios are -5.5% and -5.6%, respectively, for the quarter. The blended asset allocation benchmark posted returns of -7.5% for the quarter. Wilshire reported that the three endowment investment managers were close to their respective benchmarks.

University internal auditors verified that investment purchases of the institutional portfolios during the quarter ended March 31, 2001, and holdings were in compliance with respective Board and institutional investment policies.

Selection of Financial Advisor and Provider of Arbitrage Rebate Services

Statutory provisions require the solicitation of bids for services related to issuance of bonds through a competitive process.

The current contract with the Board's financial advisor, Springsted, expires on August 31, 2001. By contract amendment during the last five-year period, the responsibility for arbitrage rebate calculation services was transferred from Ahlers Law Firm, the Board's bond counsel, to Springsted, the Board's financial advisor. A separate Request for Proposal (RFP) was established for arbitrage rebate calculation services since not all bond counsel or financial advisor firms provide this service. In December 2000, the Board authorized the distribution of the RFPs for financial advisor and provider of arbitrage rebate services.

Four proposals for financial advisor and three for arbitrage rebate services were submitted to the Board. The selection committees, comprised of Banking Committee members, University representatives, and Board Office staff, reviewed the proposals and interviewed the candidates, in accordance with the established competitive process and selection criteria. The selection committee recommendation for the financial advisor will be presented during the Banking Committee. The selection committee recommends that the Berens-Tate Consulting Group be hired as the provider for arbitrage rebate services.

Fixed Income Manager

In May 2001, the Board authorized a search process for the selection of a new fixed income manager. Wilshire Associates identified three qualified fixed income manager candidates to be interviewed: BlackRock, Western Asset Management, and Reams Asset Management. A screening team consisting of Banking Committee members, and representatives of the universities and the Board Office will conduct the interviews. Since INVESCO currently handles all of the institutional endowments fixed income investments, they were invited to visit with the screening team prior to the interviews of the identified candidates.

The screening team is scheduled to conduct the interviews on the evening of June 5, 2001, and will present its recommendation for selection of the new fixed income manager at the Banking Committee meeting on June 12, 2001.

Revenue Note Fund Audit Report (ISU)

An independent audit was conducted on the Ice Arena Facility Revenue Note Funds of Iowa State University for the fiscal year ended June 30, 2000, as required by the note covenant. The audit report indicated that the financial statements were presented fairly in all material respects. No findings were reported.

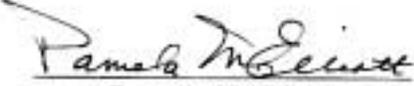
Internal Audit Reports

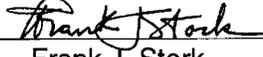
Completed institutional internal audit reports are presented to the Banking Committee as required by Board policy. The Board Office monitors the progress of the institutions' follow-up on these reports. When corrective action has been satisfactorily completed, the audits are closed.

Eight completed internal audit reports are presented, four new and three follow-up. Two of the four new Iowa State University audits require additional follow-up: Extension Distribution Center and Residence Hall Convenience Stores.

The Status of Internal Audit Follow-Up Table reflects the current status of the follow-up audits organized by university. The Table identifies 19 internal audit reports that have previously been presented to the Banking Committee, of which 16 still require follow-up.

The detailed tables identify the auditor's recommendations, managements' responses, and the status of the corrective action for the four new reports and the three completed follow-up reports. Internal auditors at Iowa State University closed the two follow-up audits. The University of Iowa internal auditors completed one follow-up report that closed the related audit.


Pamela M. Elliott

Approved: 
Frank J. Stork