The Banking Committee of the Board of Regents met on Wednesday, July 18, 2001, at the University of Northern Iowa, Cedar Falls, Iowa.

Those present were:

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

Others in attendance were:

Regent Sue Nieland;

Institutional representatives: Mary Sue Coleman, Douglas True, Ann Madden Rice, Cynthia Bartels, Terry Johnson, Gregory Geoffroy, Rollin Richmond, Warren Madden, Mark Chidister, Joan Thompson, Sheryl Rippke, Mark Engelbrecht, Stanley Johnson, Eunice Dell, Gary Shontz, Tim McKenna, Carla Maletta, William Johnson, Jim Heuer, Luann Woodward;

Ken Haynie and Ed Bittle, Ahlers law firm;

Board Office: Frank Stork, Robert Barak, Pamela Elliott, Joan Racki, Deb Hendrickson, Andrea Anania and Barb Briggle.

Regent Fisher called the meeting to order at 10:32 a.m. He welcomed Iowa State University President Gregory Geoffroy to his first Banking Committee meeting.

APPROVE MINUTES OF THE JUNE 2001 BANKING COMMITTEE MEETING.

MOTION: Regent Newlin moved to approve the minutes of the June 12, 2001, Banking Committee meeting, as written. Regent Becker seconded the motion. MOTION CARRIED UNANIMOUSLY.

COMPUTER LEASING PROGRAM FOR THE COLLEGE OF DESIGN – IOWA STATE UNIVERSITY.

Vice President Madden stated that Iowa State University officials requested approval of a leasing program for the College of Design to provide computers to students in the design curriculum. University officials are in the process of installing wireless technology on the campus. Through a proposal and evaluation process, University
officials plan to develop an arrangement to lease the computers to students at a very attractive interest rate. He said University officials have been working with the Board Office, financial advisors and legal counsel. The Attorney General has indicated that it is, in general, an appropriate arrangement but specifics of the agreement would need to be reviewed. The program would be voluntary; no student would be required to participate. Students have been surveyed and approximately 80 percent of the students are interested in the computer leasing program. He noted that computer labs would continue to be operated on the campus. Those students who choose not to lease the laptop computers would continue to have use of the labs. University officials believe the proposed leasing program is a win-win situation. The students want the equipment. The computers would enhance the program delivery of the College. The pricing appears to be very favorable. Students would own the machines at the end of the three-year lease period. College officials would like to offer the program this fall.

Regent Fisher asked who takes title to the laptop computers. Vice President Madden responded that, during the lease period, the University would have title to the equipment. At the end of the three-year lease, the student would purchase the equipment for $1. If the University owns the equipment and the students are primarily using it on campus, it is substantially less expensive for the students if the University has title to the equipment.

Regent Fisher questioned whether private enterprise could do this more efficiently. Vice President Madden stated that the equipment would come from a private supplier. He stressed that all the University is doing is facilitating the transaction. The University will own the equipment during the three-year period because of the software licensing arrangements.

Regent Fisher asked if the University would be acting as the banker. Vice President Madden responded that the University would act as the banker with the students.

Regent Fisher asked if Iowa State University will have funds invested in the equipment. Vice President Madden responded that, if the University leases the computers from Apple, Apple would have money invested and the University would repay Apple. Apple would advance the money and students will repay the money plus interest. There would not be any institutional funds involved in this transaction.

Dean Engelbrecht stated that the objective of the proposal is to make opportunities available to students while not requiring purchases by students. He noted that if the University holds the title to the machines, the University’s site license for the software can be utilized by the students. Another reason for the University to be the middle body is to begin to “regularize” the machines used by students. If students bring their own
laptop computers, the University will not support the machines if something happens. It is also a way of introducing students to what will be a “fact of life”. Students are increasingly viewing laptop computers similarly to how he viewed T-squares when he was in school. The program is a way of emphasizing the use of technology, which is absolutely necessary for the students’ education and competitiveness.

Dean Engelbrecht stated that what was proposed was a pilot program. The program will first be offered to sophomores. College officials will study and keep track of the program participation, and will provide a status report to the Banking Committee.

Regent Fisher asked if the main reason not to have Apple Computers deal with students directly is because of software licensing. Dean Engelbrecht responded affirmatively. He noted that the computer labs will continue to be available to all students.

Regent Becker asked if it was known what the interest rate will be to the student. Vice President Madden responded that the cost to the student would be the actual interest rate plus expenses. He noted that this was not a revenue-generating venture for the University.

Regent Becker asked if the costs can be included in a student’s financial aid package. Dean Engelbrecht responded that the costs are allowable for financial aid.

Regent Neil asked if the affected students would also be charged a student computer fee. Dean Engelbrecht responded affirmatively. He said that was clearly articulated in a letter sent to students about the proposed program.

Vice President Madden said University officials believe that, over time, as technology improves and wireless applications continue to emerge, the number of computer labs will decrease or the rate of growth will not continue. Students will be able to perform computing functions from many locations on campus.

Regent Fisher asked for clarification regarding the 3.5 percent interest rate through Apple Computers. Treasurer Thompson stated that the 3.5 percent interest rate from Apple is a recent development. The student will be charged an additional 2 percent as a contingency for a loan loss reserve above the interest rate received by the University.

MOTION: Regent Neil moved to (1) recommend the Board authorize a pilot program for Iowa State University to provide a computer leasing program for students in the College of Design, on a voluntary basis, beginning the fall of 2001, subject to review by the Attorney General’s Office and further
consultation with the Board Office; (2) recommend the Board authorize the Executive Director, on behalf of the Board and Iowa State University, to enter into a financing arrangement of up to $900,000 for FY 2002 for the University’s purchase of approximately 250 laptop computers, for leasing to students in the College of Design, subject to reviews; and (3) request the University provide the Banking Committee with an evaluation of operations in the first year of the program prior to receiving authorization to continue and financing the program. Regent Becker seconded the motion. MOTION CARRIED UNANIMOUSLY.

MASTER LEASE REFINANCING – UNIVERSITY OF IOWA.

Vice President True stated that University of Iowa officials requested refinancing (due to lower interest rates) of master lease financing for the University Services Building equipment and furnishings which the Board had authorized several years ago.

MOTION: Regent Newlin moved to recommend that the Board authorize the University of Iowa to refinance the master lease agreement for University Services Building equipment and furnishings. Regent Neil seconded the motion. MOTION CARRIED UNANIMOUSLY.

REQUESTS FOR PROPOSALS.

Director Elliott reviewed the information contained in the meeting materials regarding two separate requests for proposals: investment advisor and master lease agreement.

Director Elliott said the Board of Regents employs an investment advisor and money managers to guide its policy of active investment management. There is no established Board policy or other requirement to conduct a periodic review of the contract or performance of the investment advisor. Wilshire Associates has been the investment advisor to the Board and Regent institutions since May 1996. Although the contract is open ended, the annual contract service fee amount was subject to change June 30,
2001. As reported to the Banking Committee in December 2000, the principal consultant had resigned from Wilshire Associates in October 2000 and Wilshire named a new representative to interact with the Board and its institutions. The Board and Wilshire agreed to extend the contract at the current rate until December 31, 2001. This extension provided university officials and Board Office staff an opportunity to work with the new Wilshire representative.

Director Elliott stated that, since July 1985, the Board has utilized a master lease concept to provide short-term financing for real and personal property. This financing mechanism offers certain advantages over other Board financing options, such as bonding. The Board’s current agreement with Wells Fargo Brokerage Services, LLC ends December 1, 2001. The aggregate amount for all leased real and personal property financed under the current master lease agreement is limited to $15 million, a maximum set by the Board. Previous discussions during Banking Committee meetings suggest that consideration be given to increasing the master lease agreement dollar limit.

Regent Fisher noted that there was only one Iowa firm to receive the request for proposals. He asked how the list was developed.

Director Elliott said the list was developed from the list utilized the last time Requests for Proposals were issued, with input from institutional officials. The Board’s financial advisor provided input for the master lease proposal.

MOTION: Regent Neil moved to authorize the issuance of Requests for Proposals for the Board’s investment advisor and master lease agreement. Regent Newlin seconded the motion. MOTION CARRIED UNANIMOUSLY.

FY 2002 INTERNAL AUDIT PLANS.

Director Elliott stated that institutional internal auditors submit internal audit plans annually to the Banking Committee to review past accomplishments and to identify the next fiscal year’s internal audit focus in accordance with Board policy. The University of Iowa provides audit coverage for the Iowa School for the Deaf and Iowa State University provides audit coverage for the Iowa Braille and Sight Saving School.

Director Senneff stated that she has been with the University of Iowa for seven months, during which time she has learned much. Her first duty was to reorganize the two internal audit departments at the University, which are continuing to be brought
together. Her second task was to address the FY 2001 audit plan and, particularly, internal audits that were closed but not finalized. The internal auditors completed 23 follow-up audits. With regard to the internal audit of the University of Iowa Hospitals and Clinics business office for which the follow-up audit has not yet been completed, she said two rather large internal audits of the business office were scheduled to be conducted in the next couple of months using the current environment. She anticipated that all of the outstanding issues would be addressed without the need for a traditional follow-up audit. As for the rest of the internal audits on the FY 2001 plan, she said everything is either completed or in progress. Two audits were deferred to FY 2002 and one audit was cancelled. There is one recurring audit -- confirmation of depository accounts.

With regard to developing the FY 2002 internal audit plan, Director Senneff said it had been an interesting learning experience. She reviewed past audit history and spoke with more than 50 people in leadership positions at the Hospital and University, as well as state auditors. As a result, a list was developed of over 100 areas with risk potential. From that list, a risk assessment was performed and prioritization determined. A determination was also made of those audits which have to be done every year. Fifteen percent (15%) of the FY 2002 audit effort will be dedicated to follow-up audits. She noted that the internal auditors will be involved in a consulting capacity when the University of Iowa Hospitals and Clinics patient billing system is implemented. One-third of the audit activities will be dedicated to processes. She noted that the University of Iowa Department of Internal Audit does not have information technology expertise on staff. She concluded by stating that she anticipates a busy and challenging year.

President Newlin referred to the shortage of information technology auditors and said the University is in a unique position to perhaps train its own information technology auditors.

Director Senneff stated that information technology training to increase the level of understanding is being provided to an internal audit staff member. She noted that all of the staff have enough training in systems and information technology to be able to ask the right questions. University officials have spoken with outside consultants and information technology management at the Hospital and the University to determine whether there are personnel who can work with the internal auditors. Consideration is also being given to exchanging internal auditors with other Big 10 universities.

Director Rippke stated that Iowa State University’s internal audit plan for FY 2001 included 10 audits. Two audits were added for a total of 12 audits, most of which are completed. She noted that the audit year at Iowa State University begins in late-July
partly because the auditors wait until the Banking Committee approves the internal audit plan. With regard to the fiscal year 2001 closeout, she said the internal auditors are current with follow ups, and one follow up was deferred to this month. The follow-up process takes a great amount of time and is very important. The internal auditors begin follow-up immediately following the completion of an audit. Follow-up is ongoing and continuous. She noted that the Banking Committee’s support of the internal audit activities is very important in the follow-up process.

With regard to the annual planning process for FY 2002 internal audits, Director Rippke stated that a risk assessment is conducted. She referred the Banking Committee members to the proposed FY 2002 internal audit plan for Iowa State University which itemized the scheduled audits, follow-up audits and other activities for the coming year. She made note of the Facilities Planning and Management Prism System audit which would be an information technology challenge. Internal audit staff continue to receive information technology training; one such resource is the Association of College and University Auditors. Even though Iowa State University does not have in-house audit expertise in information technology, staff are doing what they can and know where to go for answers. She said there are nine follow-up audits planned for the next year. There are also recurring reviews which take place every year.

Director Rippke stated that the Iowa State University Internal Audit Office experienced many challenges in the past year, one of which was the shortage of an auditor for most of the year. She said the internal audit staff plan to coordinate their activities with new Iowa State University President Geoffroy. The Office is in good shape for a good year ahead.

Regent Fisher referred to the shortage of one auditor. He asked if the vacancy was planned and whether the position has been filled. Director Rippke said the vacancy was not planned. The position was filled as of May 1, 2001.

Operations Auditor McKenna stated that the internal audit activities at the University of Northern Iowa have gone very well in the last several years. In the last year, four internal audits were completed and released as well as six follow-up audits. He referred the Banking Committee members to the University’s FY 2002 internal audit plan that was included in the meeting materials.

Regent Fisher asked if the University of Northern Iowa is required to perform annually an NCAA audit. Mr. McKenna responded that external auditors perform that audit for the University.
ACTION: Regent Fisher stated the Banking Committee, by general consent, (1) received the universities' progress reports on the FY 2001 audit plans and (2) received the universities' FY 2002 internal audit plans.

STATE OF IOWA AUDIT REPORTS.

Director Elliott stated that two audit reports for the State of Iowa are released on an annual basis: the Comprehensive Annual Financial Report and the Single Audit Report. These reports contain information regarding the five Regent institutions and the Board Office as well as the rest of state government. She said the Comprehensive Annual Financial Report for the State of Iowa presents the aggregated financial data for the state. In the FY 2000 report, the State Auditor noted that state appropriations from the Rebuild Iowa Infrastructure Fund were used for items inconsistent with the fund’s legislatively established purpose. The Single Audit Report for the State of Iowa, required by federal law, covers financial, compliance, and control aspects of federal programs administered by state agencies, institutions, and universities. The FY 2000 report contained comments for the University of Iowa and the University of Northern Iowa; both were considered immaterial. The universities are taking corrective action.

Director Elliott referred the Banking Committee members to the following which was included in the meeting materials: At its April 2001 meeting, the Banking Committee requested clarification regarding the Combined Statement of Current Funds on page 22 of the Comprehensive Annual Financial Report as it relates to the University of Iowa Health Care Units. The report shows the University of Iowa Health Care Units with $423.6 million in direct revenues and $434.0 million in expenditures. The state-wide audit report categorizes state tax collections as revenues. The distributions of these state revenues (appropriations) are recorded as transfers below the line. Of the $619.5 million of State General Fund transfers in reported on that page, $52.7 million are state appropriations to the Health Care Units. Other hospital revenues, such as gifts, contracts, and investments are reported in other revenue categories on the statement.

Discussion followed regarding interpretation of the audit report, particularly with regard to GASB (Governmental Accounting Standards Board) standards.

Vice President Madden noted that there has been a national effort to revise accounting standards. The goal was to make financial statements clearer and more easily understood. Not everyone is sure that has been the outcome of some of the accounting changes. He stated that higher education is a complicated issue because accounting
standards are not all the same. Universities that are operated in the public sector must conform to governmental standards. Private colleges and universities have a different set of standards. The group that is revising accounting standards is having great difficulty bringing it all together. He noted that change will continue to be seen in the financial reports as standards are implemented over the next couple of years.

Regent Fisher asked about the mandatory transfers out and in. Controller Johnson said those transfers are required between universities or between governmental agencies. If it is an “in” and an “out” between state government units, it nets to zero.

Vice President Madden said the goal is to eliminate double accounting and only count funds once. When the state transfers money to a university, for example, the state does not want the University to count it as revenue because the state already counted it.

Regent Fisher said the net shows there was a $20 million increase in fund balance for the institutions.

Director Elliott said there are many federal grants that come through state agencies that also go to the universities. Those federal grants would also show up as transfers.

ACTION: Regent Fisher stated the Banking Committee, by general consent, received the State of Iowa audit reports for the fiscal year ended June 30, 2000, which include the Comprehensive Annual Financial Report and the Single Audit Report.

STATE AUDITOR REPORTS.

Director Elliott stated that what was presented were the individual institutional and Board Office state audit reports.

Regent Fisher referred to the State Auditor’s report on the University of Iowa which indicated that the cost per student is $14,610. He asked if that cost per student was fair and accurate.

Vice President True said he believes there is a fairer way of determining cost per student, which is the Regents way. The number to which Regent Fisher referred was a simple calculation of total enrollment divided by total cost; however, some of those costs are not related to student education. For a number of years, the Regents have calculated the unit cost of instruction. The Regents method utilizes a more sophisticated approach to isolate costs that are attributable to instruction. The method to which Regent Fisher referred included everything.
President Newlin said the cost per student was a very important topic. He referred to 
the interim unit cost of instruction agenda item for the upcoming Board of Regents 
meeting. The Board Office report indicated that the composite unit cost of instruction in 
FY 2000 for lower division was $6,628.

Regent Fisher referred to recommended action #2, as follows: Again request the 
institutions to consult with the Board Office on preliminary auditor comments and 
responses, as required by Board policy. He said the Banking Committee would 
appreciate institutional cooperation in that regard.

ACTION: Regent Fisher stated the Banking Committee, by 
general consent, (1) Received the following State 
Auditor’s reports for the fiscal year ended 
June 30, 2000: University of Iowa, Iowa State 
University, University of Northern Iowa, Iowa 
School for the Deaf, Iowa Braille and Sight Saving 
School, and Board Office; and (2) Again requested 
institutions to consult with the Board Office on 
preliminary auditor comments and responses, as 
required by Board policy.

INTERNAL AUDIT REPORTS.

Director Elliott stated that all of the internal audits received by the Board Office at the 
time of publishing the Banking Committee meeting materials were presented this month. 
Reports were submitted by all of the internal auditors.

Regent Neil asked if the University of Iowa internal auditor was currently planning 250 
hours to do the audit of patient accounts. Director Senneff responded that there are two 
major processes audits planned for the business office. One is scheduled for 250 hours 
and the other is scheduled for 200 or 250 hours.

Regent Neil asked if the Banking Committee members would receive the audit of the 
business office when it is completed or at the end of the year. Director Senneff said the 
Banking Committee members would receive the audit when it is completed.

Director Rippke stated that three follow-up audits at Iowa State University will be 
completed this fall.
Operations Auditor McKenna stated that, since April, one original report had been completed at the University of Northern Iowa. A follow-up audit was also completed on Price Laboratory School. There will be a follow-up of the cash funds on hand at the University of Northern Iowa.

President Newlin asked for the need for a second follow-up review on the audit of required financial reports and invoices. Internal Auditor Maletta responded that the issue was still a concern. She wanted to make sure that report and invoice preparation is being done on time.

**ACTION:**

Regent Fisher stated the Banking Committee, by general consent, (1) Received the following internal audit reports from: State University of Iowa — Accounts Payable/Purchase Order and Property Management PeopleSoft Systems — Operator Access Security, College of Medicine Faculty Practice Plan Compliance Operations, Human Resources — Decentralized Processes; and Iowa School for the Deaf — Procurement, Inventory, & Fixed Assets, and Student Organizations — Travel Expenditures, Value Analysis Program; and University of Northern Iowa — Cash Funds On Hand; and (2) Received the report on the status of internal audit follow-up.

**ADJOURNMENT.**

The meeting of the Regents Banking Committee adjourned at 11:30 a.m. on July 18, 2001.

Pamela M. Elliott  
Director, Business and Finance

Robert J. Barak  
Interim Executive Director

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