

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Report of the Banking Committee
Date: July 6, 2001

Recommended Actions:

1. Authorize the University of Iowa to refinance the master lease agreement for University Services Building equipment and furnishings.
2. Accept the Report of the Banking Committee.
3. Approve an Iowa State University pilot program 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. In addition:
 - a. 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 review by the Attorney General's Office.
 - b. Request the University provide an evaluation of the first year of the program prior to receiving authorization to continue and financing the program.

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 July 18, 2001, the Banking Committee is scheduled to consider approval of the minutes from the June 2001 Banking Committee meeting; consider approval of a three-year pilot program for Iowa State University to provide a voluntary computer leasing program for students in the College of Design; consider approval of the University of Iowa's request to refinance the master lease agreement for University Services Building equipment and furnishings; and, authorize the issuance of Requests for Proposals (RFPs) for the Board's Investment Advisor and Master Lease Agreement.

The Banking Committee is scheduled to receive the FY 2002 internal audit plans, the two statewide Iowa audit reports for the fiscal year ended June 30, 2000, the FY 2001 Internal Audit Plans; two State of Iowa audit reports for FY 2000; state audit reports for the five Regent institutions and the Board Office for FY 2000; and internal audit reports from the University of Iowa and the University of Northern Iowa.

Background:

Approve Minutes of the June 2001 Banking Committee Meeting

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

Computer Leasing Program for the College of Design, Iowa State University

Iowa State University plans to develop a computer leasing program for students in the College of Design. The University would purchase laptop computers, utilizing a financing mechanism to be determined, for the purpose of leasing the computers to the students. The University has provided two possible options for the University's purchase of these computers: 1) a taxable loan, obtained competitively, through a financial institution for an amount sufficient to purchase the needed computers, or 2) a lease-purchase arrangement with a computer manufacturer, such as Apple Computer.

Based on an informal survey, the University has concluded that there is student demand for this type of computer leasing program. If the program were approved, the University would evaluate the program and identify any potential issues that should be considered for continued operation of the program during the program's first year.

The proposed program calls for the University to purchase approximately 250 laptop computers in the first year to be leased to students. The students would lease the computers from the University for a three-year period at an interest rate sufficient to establish a loan loss reserve fund. At the end of the lease, students would be required to turn the computers in to the College so that any University software can be removed. The University plans to build the program over the next three years until all students of the College, other than freshman, would have access to this program.

Although the University has indicated this would be a voluntary program, the magnitude of the program — a laptop computer for every student — could transform it into an expected component of the College's academic offerings. Hence, the program could appear to students as costly and mandatory. The example for a student lease provided by the University estimates a \$700 per semester cost or \$1,400 per academic year. This amount would be equivalent to 40.7% of tuition and fees for the FY 2002 academic year.

In addition, all students pay mandatory computer fees. In the fall of 1990, the Board initiated a mandatory computer fee at all three Regent universities. The institutions had been charging numerous, miscellaneous computer fees for courses/programs. The Board consolidated these miscellaneous computer fees into a comprehensive fee to improve computer education and access for all students. The Board has also approved differing mandatory computer fees. For example, Iowa State University has the following mandatory computer fees for FY 2002:

All students except Engineering, Computer Science & Management Information Systems students	\$144
Graduate students	116
Engineering students	366
Computer Science & Management Information Systems students	292

The Attorney General's Office is reviewing various aspects of this proposed program. A report of the review is expected to be provided at the Banking Committee meeting.

Iowa Code §8.46 requires notification to the Legislative Fiscal Bureau of any lease-purchase or installment acquisition arrangements totaling \$50,000 or more at least thirty days prior to entering into the contract. If a lease-purchase is the most economical financing, notification to the Legislative Fiscal Bureau will be made. The information provided to the Legislative Fiscal Bureau is provided to the Legislative Fiscal Committee at its next scheduled meeting.

Master Lease Refinancing, University of Iowa

In October 1999, the Board authorized the University of Iowa to utilize master lease financing to finance \$1.8 million for equipment and furnishings for the University Services Building. The project was financed over a period of five years under the then-current master lease agreement with Norwest Investment Services, which is now Wells Fargo Brokerage Services, LLC. Interest rates were set at 5.63% at the time the borrowing commitment was executed, with semi-annual payments of \$208,105.44.

As interest rates have declined, the University has explored with Springsted, the Board's financial advisor, and Wells Fargo Brokerage Services, LLC, the possibility of refinancing the outstanding principal for the project.

The University proposes to refinance the University Services Building lease for the seven remaining payments. The refinancing would be at 4.58% with seven semi-annual payments of \$205,012.45 for an expected gross savings of \$3,092.99 for each semi-annual period during the remaining term of the initial lease period and is expected to provide more than \$17,171 in present value savings over the length of the entire agreement. Based upon current projected interest rates, the refinancing would save more than \$21,650 over the remainder of the financing period.

Requests for Proposals – Investment Advisor and Master Lease Agreement

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.

Since July 1985, the Board has utilized a master lease concept to provide short-term financing (3 to 10 years) 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 limit.

FY 2002 Internal Audit Plans

The university 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. All three universities have internal auditors. The University of Iowa (SUI) provides audit coverage for the Iowa School for the Deaf and Iowa State University (ISU) provides audit coverage for the Iowa Braille and Sight Saving School. Costs related to coverage of the special schools are detailed in the plans.

The three internal audit staffs made progress towards completing the internal audit plans for FY 2001. Collectively, 55 audits were completed and released, 23 were in process or pending, 12 were ongoing, one was cancelled, and seven were deferred until FY 2002. All internal audit staffs have audits in progress from the FY 2001 plan.

The FY 2002 internal audit plans identify specific internal audits and follow-up audits to be completed by the internal audit staffs of the Regent universities. The plans are based on known circumstances and certain areas needing routine audit coverage. The plans also include non-audit activities such as leave and professional development. Portions of the audit plans are unscheduled to allow the internal auditors flexibility to respond to events that transpire throughout the year.

	FY 2002 Proposed Audit Plan		
	Scheduled Audits	Follow-Up Audits	Total Hours Budgeted
University of Iowa			
University Operations	22	15	4,310
Hospital Operations	13	7	2,960
University and Hospital Operations	<u>13</u>	<u>7</u>	<u>4,130</u>
University of Iowa Total	48	29	11,400
Iowa State University	22	9	10,400
University of Northern Iowa	8	4	3,116

State of Iowa Audit Reports

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.

The Comprehensive Annual Financial Report (CAFR) 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.

State Auditor Reports

As part of the annual audit process, the State Auditor provides written reports on certain aspects concerning the Regent institutions and Board Office for which they believe corrective action is necessary.

Both statewide audits are conducted by the State Auditor and incorporate the financial information of the Regent institutions and Board Office. The Single Audit Report for the State of Iowa, required by federal law, covers financial, compliance, and internal control aspects of federal programs administered by state agencies, institutions, and universities.

The State Auditor's reports listed above for FY 2000 contained comments on findings reported in the State's Single Audit Report as well as other findings related to internal control, statutory requirements, and other matters. None were considered significant. Corrective actions are being taken on all findings.

Regent Procedural Guide §7.05 requires that institutions consult with the Board Office regarding preliminary audit comments and proposed responses. At the July 2000 Banking Committee meeting, the institutions were requested to ensure that all comments and responses are transmitted in accordance with this procedure. None of the FY 2000 preliminary comments or responses were shared with the Board Office.

Internal Audit Reports

Completed institutional internal audit reports were 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.

Fifteen completed internal audit reports were presented to the Banking Committee, seven new and eight follow-up. Three of the seven new audits require additional follow-up: Human Resources – Decentralized Processes (SUI); Student Organizations – Travel Expenditures (SUI); and Cash Funds on Hand (UNI).

The Status of Internal Audit Follow-Up report reflected the current status of the follow-up audits organized by university. The report identified 18 internal audit reports that have previously been presented to the Banking Committee, of which 11 still require follow-up. Internal auditors at the University of Iowa closed three audits; Iowa State University closed one audit; and the University of Northern Iowa closed three audits.


Pamela M. Elliott

Approved:


Frank J. Stork