Overview

June
- Portfolio not compliant
- Record keeping not compliant
- COD itself reports non-compliance from January 2014-early 2015
- May Internal Audit report found non-compliance, no recommendations adopted
- COD reports inconsistent with COD policy:
  - mutual funds categorized as money market accounts
  - money markets held at banks categorized as collateralized accounts
- COD monthly investment report failed to show compliance information
- Cleaned up record keeping, non-compliant accounts

July
- Continued clean up on record keeping and investment accounts
- Wrote off IMET $2.1 million
- Adjusted funds available on 2013A Bond report by $2.4 million to correct errors

August
- Continued clean up records
- Develop new monthly reporting package
- Evaluating investment options for portfolio
Findings-Compliance

**JUNE COD PORTFOLIO NON-COMPLIANCE**

• **$15 MM in IMET** because tax proceeds were still going to that account. Amounts transferred to JP Morgan.

• FIVE CDs, totaling approximately $1.25 MM, were duplicated across institutions. This meant that **FDIC insurance would not apply**. CDs sold. Funds moved to a compliant JP Morgan account.
COD held $33.7 million in non-compliant Northern Trust Ultra Short Fund. It is not a money market fund. It holds securities lower than AA. Holdings sold, proceeds invested in compliant Northern Treasury Fund.

COD held the Goldman Sachs Prime Fund in Amalgamated Bank accounts. This could be viewed as a non-Treasury money market in which case it exceeded the 5% limit.
COD’s Compliance Report

• COD compliance report states noncompliance to Jan. 2015 from Jan. 2014.

• COD report categorized certain mutual funds as money markets (money markets are a defined term under the Investment Act of 1940), and in June categorized a money market at a bank as a collateralized account.

• COD report did not state that IMET convenience fund did not meet rating requirement of policy.

• COD report did not identify other above items for May/June (page 5).
Findings-Compliance

COD’s Compliance Example

• Regarding September 2014 (subject of internal audit report), several instances identified of non-compliance with board policy

• Internal audit report identified $81.8 million of mutual funds (policy requires money markets) and $80 million in IMET (not rated by two agencies)

• Total of at least $160 million out of compliance (over 73% of total investment pool of $217 million)
Findings—Investment Reporting

Investment Reports to the Board
• Board reports do not show potential non-compliance or mix of investments.

Clean up Items
• Wrote off the $2.1 MM of IMET losses.
• “Clean up” of 2013A bond proceeds:
  • Reconciled bond account with project-by-project accounting (approx. $400k adjustment)
  • Previously, system failed to account for sales of investments accurately.
  • Reconciliation increased Funds Available on the 2013A Construction Bond report
Investment Account Records—Internal audit report identified certain record keeping violations of the policy

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*X* - Documentation not on file in the Finance Department
Findings—Reporting

Investment Account Records—Working with Team We Have Centralized Records and Most Required Items

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(1) COD controls the account.
(2) Several banks reluctant to sign certification. It should be that COD owns only collateralized accounts at Associated and JP Morgan and Amalgamated serves primarily as a custodian through trust department.
Overview of Investment Performance 2015 and Quarter Ended June 30, 2015

For the Fiscal year ended 2015, the College had an average monthly cash and investment balance of $260.9 million.

- The College earned interest of $1.7 million prior to gains and losses
- Unrealized gains totaled approx. $27k
- IMET was written off in June 2015, per accounting guidance.
- While there is a chance of future recovery of part/all of IMET proper accounting treatment is to write off as loss in FY2015 and contingent gains will be recognized at time of recovery
- $2.6 million of realized losses, included IMET losses of approximately $2.1 million
- Return was (0.23%), without IMET losses, return would be 0.48%*

For quarter ended June 30, 2015, the College had an average monthly cash and investment balance of $247.7 million.

- The college earned interest of approx. $391k
- Unrealized gains totaled approx. $77k
- Realized losses (including IMET) totaled $2.2 million
- Quarterly loss was (0.72%), without IMET losses, return for quarter would have been 0.13%*

* Return calculated by \( \frac{\text{total income plus realized/unrealized gain/loss}}{\text{average portfolio balance}} \) and portfolio contained certain mutual funds which were not policy compliant.

** For reference a 2 year treasury note is yielding 0.46% and 1-3 year BAML treasury index has yielded 0.66% per year over last 3 years
Conclusions

• Self-management of $240 MM+ portfolio appears to severely stress COD finance department’s capabilities
  - Compliance haphazard
  - Reporting and record keeping deficiencies
  - Lacking documentation
  - Performance sub-par (especially with IMET loss)
Recommendations

• Use one to two professional money managers to manage COD investment portfolio. This will improve compliance, reporting and performance.

• Current ‘in-house’ compliance and reporting done part-time by accounting staff who lack specific investment portfolio management background and bandwidth given other responsibilities.

• COD cannot compete on incentives to hire staff to manage funds. Effective in-house management would require hiring 1 to 2 people with skill sets in investment compliance, reporting and selection—annual package for such professionals easily incremental $200k+
Recommendations

• Potential fees of an advisor offset in part by COD’s current investment fees of $94,000 (below)
  • $20,000 on PFM $25 million securities portfolio
  • $24,000 on Great Lakes $20 million securities portfolio
  • 15+ basis points on money market funds (for example Northern Trust treasury yield of 0.01% net of approx. $50,000 in fees

• COD receives limited investment strategy advice on overall portfolio or compliance regime that externals could provide

• Collateralized accounts yield less than one quarter of a percentage point because of collateralization costs
Recommendations

- Established evaluation team of Trustees McGuire and Bernstein, and Acting Interim President Collins.

- Contacted ten firms -- large banks, advisors, asset management firms. Six interested.

- Considering recommendation to Board of competitive process to select one to two.

- Starting Board conversation with this presentation
Recommendations

If COD hired established and qualified firms to manage $200+ million portfolio

Benefits:

• 100% compliance
• 100% reporting accuracy
• 100% consistency with COD-established portfolio benchmarks
• Leverage advisor team research, execution, portfolio management, risk/compliance and technology
• Frees COD FTE for core accounting, budgeting and controls

Costs or risks:

• MUST BE OVERSEEN
• Costs must be controlled
• COD must verify reported compliance – but can leverage advisors’ resources