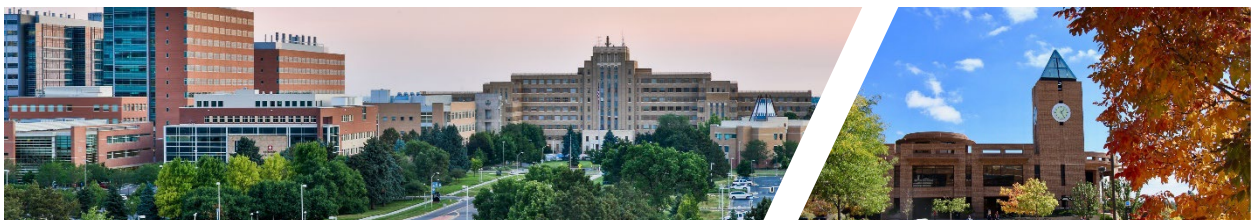




University of Colorado
Treasury Investment Process Review
Report

April 5, 2023



Executive Summary

In January 2023, at the request of the University of Colorado (CU or university) Board of Regents (board) and the University of Colorado President asked the Vice President and University Counsel to initiate and convene a Treasury Investment Process Review Committee (committee) to review and assess several issues related to the Treasury including:

- The existing CU Treasury Office (Treasury) operating reserve investment processes and associated controls for effectiveness in establishing appropriate accountability for related decision-making;
- Effectiveness of communication, including delivering reliable, accurate, and timely reporting and information to appropriate stakeholders; and
- Sufficiency of training.

The committee, in collaboration with the external investment advisory firm Innovest Portfolio Solutions LLC (Innovest), reviewed the operating reserve investment process and related controls in existence as of January 31, 2023.

The review included examining reports and communications produced by Treasury for the board, the Treasury Investment Advisory Committee (IAC), the Regent Finance and Audit Committees, and university leadership. Selected current and former Treasury employees, university leadership, and external consultants were interviewed.

We noted that a confluence of circumstances, below, has resulted in a disconnect between the information provided by the former university treasurer to university leadership and the IAC, ultimately hindering their ability to make informed decisions or provide advice, respectively, regarding the Treasury Pool spending:

- Equity markets rebounded from the COVID-19 pandemic lows in March 2020, yielding unprecedented growth in the university portfolio's unrealized gains, until a dramatic pull back in the market beginning in January 2022;
- There was a change in Treasury leadership in January 2021. By Fall 2022 CU leadership became aware that the recently appointed treasurer lacked experience with and knowledge of the complexities of the university investment portfolio management and accounting;
- The treasurer did not sufficiently leverage subject matter expertise and share information about the Accelerated Strategic Plan (ASP) effort with the Treasury team;
- Incomplete information was presented to the IAC and university leadership, inhibiting their ability to provide advice or make informed decisions, respectively, about distributing the portfolio investment returns for planned spending;
- Inaccurate representation of funds available for spending triggered development of the ASP that anticipated a significantly higher than historic draw on funds (from 4% to 13%); and
- Accounting for unrealized and realized gains of investments and cash is complex, and not fully understood across the university.

The committee developed recommendations to strengthen the operating reserve investment process and ensure the practices are sustainable and better controlled regardless of

leadership or personnel turnover, changes in university objectives or spending plans, and external factor volatility. These recommendations related to:

1. Providing university leadership with more timely, insightful, relevant, and accurate information to facilitate decision making and advice related to assigning planned spending against unrealized gains, reporting on cash availability for commitments requiring large cash outflows, and overall portfolio design.
2. Strengthening internal processes and controls to help ensure CU leadership directives are consistently carried out, specifically as they relate to maintaining related policies and procedures, segregation of duties, performing reconciliations, reviewing transactions, and reporting.
3. Providing the IAC with sufficient and transparent information to enable it to effectively carry out the role of providing continuing impartial investment expertise, as well as modifying the IAC formal workplan to include a review of upcoming significant expected cash outflows, their anticipated timing, and advice on the associated allocation of the operating reserves between segments.
4. Strengthening the collaboration between Treasury and Budget & Finance, specifically to include proforma cash flow projections.
5. Enhancing the understanding of the accounting procedures utilized for assigning realized gains, as well as Claim on Cash, by all advisors and decision-makers, as well as strengthening knowledge transfer among the Treasury team.

Further, the university investment strategy should be reviewed at least annually to reflect the changes in the budgetary needs, complexity of operations, and market conditions and opportunities.

We expect our review of the process design and controls in place will provide valuable feedback that creates meaningful enhancements to the investment process going forward.

Respectfully submitted,

Treasury Investment Process Review Committee:

Nolbert Chavez, Regent, Finance Committee Chair

Ken Montera, Regent, Investment Advisory Committee Chair

Ilana Spiegel, Regent, Audit Committee Chair

Terri Carrothers, Executive Vice Chancellor of Administration and Finance, CU Anschutz Medical Campus

Todd Haggerty, Vice Chancellor and Chief Financial Officer, CU Boulder

Chad Marturano, Vice President and Chief Financial Officer, CU System Administration

Agnessa Vartanova, CU Associate Vice President Internal Audit

Dan Wilson, Interim Treasurer

Wendy Dominguez, Innovest Portfolio Solutions LLC Co-founder, President, Principal

Background

The mission of the CU Treasury is to actively steward and manage the financial resources of the university on behalf of the board, by providing comprehensive treasury services in support of the university faculty, staff, and students. The position of the university treasurer is established in the Colorado Revised Statutes (C.R.S.) §23-20-109 *Postsecondary Education* and the responsibilities are further detailed in the Regent Policy 3.A.4 *Officers of the University and Administration*.

The treasurer, who also serves as the university Chief Investment Officer, is responsible for overall cash, debt, and investment management, and is a co-fiduciary for CU retirement plans. Regent Policy 13.A *University Investments* provides the university treasurer with authority to invest the university's financial assets primarily in cash equivalents, debt instruments, equities, and alternative strategies, using external managers and commingled and mutual funds, including the CU Foundation's Long Term Investment Pool (LTIP), where appropriate with advice from the university IAC, in accordance with applicable laws, regulations, and policies.

Per the C.R.S. §23-20-117.5(4) *University of Colorado Fund Creation – Control – Use*, the board established the IAC, which includes the CU treasurer, Colorado State Treasurer, or the State Treasurer's designee, a regent, and two representatives of the financial community. The purpose of the IAC is to make recommendations regarding CU investments. The university has also engaged Callan, an independent investment advisory firm, to provide advice and insight related to the university investment portfolio. On a quarterly basis, Callan provides an overview of equity and fixed asset trends, asset allocation, total fund performance, and general market overview and indicators. The IAC meets six to nine times per year and its annual work plan includes reviews of quarterly portfolio performance, capital market expectations, reviews of asset allocations, manager reports, and other relevant matters.

The Regent Finance Committee is established by Regent Policy 2.C.3 as a standing committee of the board with the primary function to oversee the fiscal stability and condition of the university as well as the university's facilities and operations. The Finance Committee monitors the university's financial operations, debt level and investment performance. Although the board retains the fiduciary responsibilities and provides guidance on fiscal policy and planning matters, the Finance Committee has a responsibility to recommend to the board long-range financial planning strategies, financial performance and asset allocation guidelines and other policies related to the university's Treasury function, and report on the investment portfolio. (See Appendix I for detail.)

Regent Policy 13.A requires written guidelines to be established and periodically reviewed for the investment strategy. (See Appendix II for detail.) The *Operating Procedures for the Investment Policy Statement for the Treasury Pool* document was developed by the Treasurer's Office in July 1997 and last revised in September 2018. This document provides for the Treasury Pool to consist of assets with varying time horizons, specifically:

Segment 1 Daily Working Capital Segment – this segment includes the day-to-day operating funds with investments with maturities of one year or less.

Segment 1.5 Enhanced Cash – this segment includes assets that will flow in mid-August and January (largely from tuition payments). The outflows from this segment support payroll and debt service payments.

Segment 2 Contingency Segment (Near Cash) – this segment includes assets that would be available if the amounts specified as Daily Working Capital and Enhanced Cash Segments prove to be insufficient. Investments in this segment include limited maturity securities, from 1 to 5 years. Note: in August 2021, assets in this segment were reallocated to Segment 3 and an operating line of credit of \$100 million was established to provide the near cash capability of Segment 2 assets.

Segment 3 Non-Recurring Segment – this segment includes the part of the Treasury Pool that is not expected to be spent near term and includes longer-term investments that are more capable of absorbing the short-term volatility that comes with higher long-term return expectations. Note: the CU Foundation-managed LTIP is included in this segment.

As of June 30, 2021, the Treasury Pool experienced unusually high returns for the year primarily due to strong market conditions. The unrealized gains balance as of June 30, 2021, was \$816 million, consisting of \$814.3 million in Segment 3, including \$170.6 million attributed to the illiquid (i.e., not readily convertible to cash) LTIP and \$1.6 million in Segment 2. The treasurer repeatedly advised university leadership that the total unrealized gain was available to spend. Notwithstanding that advice, university leadership developed the ASP to apply a significant portion of these funds over a five-year period in support of various campus and university efforts, and directed the Treasury to retain approximately 50% of the unrealized gains as a buffer for potential market downfall.

During fiscal year 2022 (FY22), actions occurred to convert unrealized gains to realized gains:

1. The portfolio was rebalanced in August 2021 to the mid-point of each asset class by selling appreciated equity assets and buying fixed-income assets. This action resulted in gains of \$67.5 million recorded and reinvested into long-term Segment 3 assets.
2. In December 2021, the equity and fixed income managers reported gains, dividends, and losses from the funds' investment activities for the calendar year of \$58.2 million. These net gains were reinvested into long-term Segment 3 assets.
3. In June 2022, the treasurer sold one Collective Investment Trust asset invested in the S&P 500 asset class and purchased additional shares in a S&P 500 mutual fund. He also sold and repurchased assets in this mutual fund to convert unrealized gains into realized gains. The total gains realized from these activities were \$150.6 million. In addition, interest, dividends, grossed-up fees, and internal loan interest added \$54.1 million to the gross investment revenue for FY22 of \$330.5 million. All this revenue, excluding approximately \$1 million, was invested in long-term Segment 3 assets. An additional \$13.8 million of cash was rebalanced in June 2022 into Segment 3.

2022 was the worst year for bonds in 95 years, with the Bloomberg U.S. Aggregate Bond Index dropping 13%. Starting January 2022, equity markets began to decline due to slowing economic growth, high inflation, persistent supply chain pressures following the global pandemic, and increased uncertainty due to geopolitical risks.

As of June 30, 2022, the unrealized gains in the Treasury Pool were \$158 million, of which \$147 million resided in the illiquid LTIP. By September 30, 2022, the amount of unrealized gain decreased to \$38.5 million (\$137.5 million unrealized gain in LTIP, offset by \$99 million of unrealized losses in several Segment 3 assets).

In November 2022, it came to light that the June 30, 2022, amount of unrealized gain balance available for ASP was erroneously overstated by the treasurer to CU leadership. The treasurer left the university in December 2022. The recently retired university treasurer was invited and accepted to serve as interim treasurer.

Further Q1 FY23 unrealized losses of \$110.3 million in the Treasury Pool created a need for mid-year budget adjustments across all CU campuses and re-evaluation of feasibility of commitments made under the ASP.

In January 2023, at the request of the board and at the direction of University Counsel, a committee was formed to review existing investment processes and controls for effectiveness in establishing appropriate accountability for related decision-making; effective communication, including delivering reliable, accurate, and timely reporting and information to appropriate stakeholders; and sufficient training.

The committee comprised three regents (Nolbert Chavez, Finance Committee Chair; Ken Montera, IAC Chair; and Ilana Spiegel, Audit Committee Chair), university budget and finance representatives (Terri Carrothers, CU Anschutz Medical Campus executive vice chancellor of administration and finance, CFO; Todd Haggerty, CU Boulder vice chancellor, CFO; and Chad Marturano, CU System Administration CFO), Dan Wilson, interim treasurer, and Agnessa Vartanova, associate vice president of internal audit. The committee engaged Innovest to collaborate in the review and provide independent advice.

Objectives & Scope

In collaboration with the committee, Internal Audit and Innovest conducted an independent review of the CU Treasury operating reserve investment process, specifically with the objectives to:

- Review current investment processes, procedures, documents, controls, and structure.
- Provide recommendations on controls and practices needed to ensure comprehensive understanding of investment revenue resources available in the Treasury Pool, including accurate reporting of funds available for distribution, accounting and reporting, and investment pool allocation strategy.
- Provide recommendations on controls and practices needed to ensure effective communication about Treasury Pool investment revenue resources and practices with team members and stakeholders including the IAC, Finance Committee, external investments advisors, CFOs, university leadership and regents.
- Articulate best practices for investment governance and execution.

The scope of the review included Treasury investment processes and related controls as established through January 31, 2023, including reports and communications produced by the Treasury for the board, the IAC, the Finance Committee, the Audit Committee, and university leadership. The review also included interviews of selected Treasury current and former employees, university leadership, Callan, and FORVIS (CU external auditors).

Observations & Recommendations

Based on the procedures performed, we noted the following areas of best practices:

- Monthly reconciliation against custodial statements is performed by the Treasury team.
- Although the Treasury investment record-keeping processes are largely manual, there is appropriate segregation of duties, review, and supervision of investment activity.
- Independent monitoring of investments by fiduciary advisor and IAC represents a best-in-class process.
- Periodic review of the Treasury Pool allocations takes place to maximize return, while minimizing idle cash.
- There was a four-week overlap between the retiring treasurer and his replacement to allow for onboarding.

We also noted the following opportunities for enhancing the process for management's consideration. Implementing these items would further strengthen the effectiveness of internal controls:

1. Assigning Planned Spending Against Unrealized Gains, Reporting, and Overall

Portfolio Design: There is an opportunity to provide university leadership with contextual information to facilitate thorough discussion and effective decision making. When the university leadership assigned spending goals against a significant portion of the \$816 million of unrealized gains reported by the treasurer as funds available to be spent, they did not have the complete and accurate information about the true availability of those funds. Primarily, most of the unrealized gains resided in long-term investments unavailable for immediate distribution, with 21% invested in the illiquid LTIP. Most importantly, these funds were invested in the markets and subject to market volatility.

This resulted in an inaccurate understanding by CU leadership of gains available to be realized for the ASP efforts. Specifically, when the Vice Chancellor Group (VCG) asked the treasurer about the availability of these funds for planned efforts several times throughout FY22, the treasurer reassured them of appropriate actions taking place. In actuality, the realized gains were reinvested into Segment 3, making the cash unavailable for funding the ASP efforts. Despite assurances from the treasurer, and at the direction of university leadership, approximately 50% of the unrealized gains were left in the portfolio as a buffer and absorbed the \$425 million of the portfolio market loss in FY22. This buffer significantly mitigated the impact of the portfolio market loss. Altogether, insufficient actions were taken by the treasurer to "fence off" the investment revenue assigned to fund the ASP efforts with cash.

- **Enhance Quarterly Reporting:** Although the treasurer provides quarterly reports to the board, the Finance Committee, and the CFOs, the reports do not always provide sufficient visibility into the cash and investment position, and specifically the context for changes in the portfolio (e.g., transfers between segments, market appreciation/depreciation, realized gains, etc.). The treasurer's report to university leadership on the Treasury Pool status, specifically unrealized gains and losses, includes a delineation by segment to improve transparency and facilitate decision-making. However, these point-in-time reports do not differentiate between segment fluctuations due to market dynamics and transactions made by the treasurer.

We recommend modifying these reports to include realized gains by segment for the period, current unrealized gains by segment for the period, as well as any net contributions to the segment for the period. Additionally, these reports should include estimates of significant net cash outlays outside of the normal course of business (i.e., capital projects and non-capital exceptional reserve spending) for at least the subsequent 12-month period.

The reports to the IAC should also focus on cash flow expectations of the university, as well as the overall asset allocation of the segments and confirmation that enough cash and short-term investments exist for spending, particularly when higher than usual expenditures are anticipated.

- **Providing Progress Reports on Investment Revenue Distribution Plans:** University initiatives that require funding beyond the income and dividends generated by the portfolio must involve security sales and intentional portfolio rebalancing to a targeted allocation to ensure sufficient cash is available when it is needed. There is an opportunity to enhance transparency and accountability by periodically reporting the progress of raising cash for planned investment revenue spending requiring a large cash outflow to the Finance Committee or to the full board. The reports should provide sufficient visibility into the cash and investment positions, as well as the changes in the portfolio vs. projected cash needs overtime.
- **Realizing Gains:** There should be more robust procedures for realizing investment gains once there is planned spending of investment returns. This should include an analysis of cash flow timing for initiative needs and contingencies for market downturns and understanding the acceptable level of risk. The quarterly VCG meetings, which include all campus CFOs and the System Administration CFO, could be leveraged as a potential forum for these discussions. Since the realization of gains is a signal that those assets can be spent, there should be a procedure to move realized gains from Segment 3 into Segment 1.5 until confirmation that there is enough cash for near-term spending. Historically, there has been little movement from Segment 3 to Segment 2 or Segment 1.5. Rebalancing has been from cash to Segment 3. This lack of historical practice or a disciplined process contributed to the current issues.
- **Segment 2 Evaluation:** We recommend considering the possibility of reinstating Segment 2 investments. The recent increase in interest rates has created an opportunity for fixed income investors to earn a reasonable return on investments. In addition, under the current structure, with just two choices of time frame (5 years + or

immediate) creates a mismatch in the spending horizons for the university. There is an opportunity to earn a relatively attractive rate of return without significant downside risk if Segment 2 is reinstated. This opportunity was likely not available when the losses occurred. The interim treasurer is exploring this recommendation. Additionally, we recommend that Segment 2, as it relates to projected outflows, is discussed quarterly among the campus CFOs, System Administration CFO, and treasurer.

- **Overall Portfolio Allocation:** We recommend reevaluating the total Treasury Pool allocation as outlined in the “Operating Procedures for the Investment Policy Statement for Treasury Pool for The Regents of the University of Colorado” (Operating Procedures) and determine whether a total target allocation is relevant. Based on the highly cyclical nature of cash balances in the Treasury Pool, having a target cash allocation in the total Treasury Pool may not be helpful. Instead, a report should be run to overlay the account segment balances against the upcoming cash flow needs for improved transparency. The IAC should first focus on whether the segment balances are aligned with the timing of the university spending needs, and second with the help of Callan, if the asset allocation in Segments 2 and 3 are efficient and optimal. The Operating Procedures should continue to reflect the specific asset allocation targets for Segment 2 and Segment 3 individually.
- **Unrealized Gains Buffer:** Unrealized gains serve as a buffer for market downturns or to allow for flexibility in case of unforeseen cash needs. Nearly all unrealized gains balances reside in Segment 3 assets. To hedge against financial market volatility, it would be prudent to maintain a significant balance of unrealized gains. Realizing gains through sale of appreciated assets should be done with extreme care. Best practice is to rebalance the portfolio periodically to maintain target allocations which has been historically performed.

2. Internal Controls: Internal controls are essential to assuring the accomplishment of organizational goals and objectives. They consist of specific policies and procedures implemented by an organization to ensure that financial reports are reliable, operations are efficient, and activities are compliant with applicable roles and regulations. An important aspect of an effective internal control environment is periodic testing and validation of control by checking to see if specific process steps are consistently followed. Examples of internal controls include:

- **Policies and Procedures** – Established policies, procedures, and documentation that provide guidance and training to ensure consistent performance at a required level of quality. These should be available to all department members, and periodically reviewed and updated for relevance based on the changing operating environment.
- **Segregation of Duties** – Work duties are divided or segregated among different professionals to reduce the risk of error or inappropriate actions.
- **Reconciliations** – Comparisons are made between similar records maintained by different professionals, or within different systems, to verify transaction details are accurate and that all transactions are properly recorded.

- **Transaction and Activity Reviews** – Management reviews of transaction, operating, and summary reports help to monitor performance against goals and objectives, identify trends or issues, etc.
- **Information Processing Controls** – A variety of internal controls performed to check completeness, accuracy, and validity (i.e., authorization) of transactions.

We noted an opportunity to strengthen the CU Treasury control activities to help ensure management directives are carried out, specifically:

- **Policies and Procedures** –
 - Although the investment-related operating procedures had been documented in the Operating Procedures, there is no evidence of review or updates to the document since September 1, 2018. This periodic review is required by Regent Policy 13.A.2: “...develop written guidelines which...set in writing the process used to periodically review the investment strategy and the guidelines.”
 - Specifically, the change in strategy over Segment 2 has not been reflected in the Operating Procedures. Risk tolerances or strategic asset allocation may need to be periodically adjusted based on changes in the operating and economic environment and coordinated and communicated with Callan. Lack of periodic review and update may not effectively allow for this process to take place.
 - The current Operating Procedures do not establish guidance for earnings distribution. Historically, the portfolio has returned in excess of 5% and has been able to support a 3-4% spending rate. We recommend that distribution plans significantly above the typical spending are developed in collaboration with the CFO’s, associated cash flow needs and timing are shared with the IAC (including consultants), and presented to the Finance Committee or the board during the annual budget setting process. Spending amounts should take into consideration the budgetary needs of the university, current economic and market conditions, and market outlook.
 - The document references the Treasury Pool Investment Policy Statement, and instead should reference Regent Policy 13.A *University Investments*. There is an opportunity to streamline the language in the Operating Procedures to consistently refer to appropriate university policies and procedures.
- **Segregation of Duties** – The treasurer performs both the operational and reporting duties for investments (i.e., managing investments and reporting to management and the board) thus resulting in an inadequate segregation of duties. The Treasurer is the only named fiduciary of the university, thus requiring no mandated review and approval for his or her actions. Developing a dollar threshold for specific transaction types (e.g., selling assets to realize gains) to require a second level of review and approval by the System Administration CFO, the university president, or Finance Committee Chair would provide more visibility and accountability for treasurer’s actions. This threshold should be periodically reviewed for appropriateness based on the university budget.

- **Comparison of Claim on Cash to Treasury Pool Balances** – A comparison of the Treasury Pool cost balance to Claim on Cash should be performed regularly (e.g., semi-annually) by a designated Treasury staff and reviewed by the treasurer or designee. Due to the complexity of the Claim on Cash accounting, a de minimis threshold may be considered by management for unreconciled amounts. The comparison process should be formalized to produce accurate and timely reporting and disclosures.
- **Transaction and Activity Reviews** – Page 10 of the Operating Procedures describes guidelines for distribution of income and the reserve. However, the Operating Procedures do not create a process for a periodic reporting and review of the status of this account, which may be helpful to the IAC in fulfillment of their advisory role, and the CFOs in their decision-making.
- **Information Processing Controls** – Testing the completeness and accuracy of Treasury reports was not in scope of the review. However, during the walkthroughs, we noted that Treasury uses Excel spreadsheets to track investments and related activity. Manual manipulation of complex sets of data makes the outputs prone to mistakes due to errors, makes the report preparation process less efficient, and the review less effective.

With the growth of CU operations and the investment portfolio, the university should investigate leveraging more modern reporting tools to enhance integrity of reporting. Software systems exist that receive daily downloads from custodians so that some of the spreadsheet work being done for reconciliation could be done in a more automated and timely way. Additionally, service providers exist that can offload these responsibilities.

Reconciling trades closer to placement date versus statement date would create additional control. Each custodian should issue trade confirmations which should provide the opportunity to reconcile transactions more regularly, rather than waiting for the monthly statement which can be 4-6 weeks after the transaction. This would assist with consolidating recordkeeping and reconciling transactions.

Reports could be run to track buys and sells of securities, distributions, market values, cost basis, etc. across all custodians. Running reports to track current market values to a target allocation and committed distributions could help alleviate issues. If fewer hours are spent on reconciliation of transactions, perhaps more time could be spent trying to build out proforma cash flows across the system, and specifically compare the Claim to Cash system.

3. **IAC Role:** Based on the review of the IAC meeting minutes for 2021 and 2022, we noted that the ASP was not brought to their attention, even though it created a claim on a significant portion of the \$816 million unrealized gains of the entire Treasury Pool portfolio. The IAC may not be able to effectively carry out its role of providing continuing impartial investment expertise to further improve the university's investment decision-making process due to the lack of sufficient and transparent information provided, such as communication and visibility into cash flow timing.

Also, based on the review of IAC meeting minutes, we noted that recent meetings focused almost entirely on the second charge of the IAC, to review the performance of the investment managers and other service providers and assist in decision-making on selection of, and changes to, the external managers to achieve the goals and objectives of the investment strategy, which is only Segment 3 assets. However, page 9 of the Operating Procedures requires the treasurer to make transactions to bring the Treasury Pool allocation back to the target Strategic Allocation in consultation with the IAC.

Consistent with our recommendation on Policies and Procedures, we recommend reviewing the Operating Procedures to ensure they are consistent with the IAC charge. Consistent with our recommendation on Enhanced Reporting, the IAC should receive timely, accurate, and sufficient information to review the upcoming expected cash flow needs and the balances of the operating reserves between Segments 3, 2 and 1.5.

- 4. Collaboration Between Treasury and Finance:** We noted an opportunity to strengthen the level of collaboration and communication between Treasury and Budget & Finance. For example, Treasury is not always aware of the timing and priorities of university initiatives that require large cash outflows. Spending from the reserves is not consistently coordinated with Treasury. Having this information in a timely manner would support more accurate and actionable input into cash projections and investment management. Campuses should consistently provide monthly capital and large non-capital reserve spending projections on a quarterly basis to Treasury to improve the treasurer's ability to manage cash. We recommend the campus and System Administration CFOs and the treasurer collaborate on defining the threshold for reporting non-capital reserve spending projections above historical levels that would sufficiently address the informational needs of Treasury for effective cash management. The quarterly VCG meetings could be leveraged as a potential forum for these discussions. The treasurer does not typically attend the VCG meetings. We recommend that the System Administration CFO informs the treasurer of exceptional cash outlays expected by campuses, and that the treasurer follows up with campus CFOs, as needed, outside of the VCG meetings.
- 5. Training and Knowledge Transfer –** Enhanced understanding of the Claim on Cash accounting structure would lead to more informed decision-making and stronger internal control environment. The accounting procedures used for assigning realized gains, as well as Claim on Cash, are complex and need to be well understood by all advisors and decision-makers (e.g., CFOs, IAC members, members of the Finance Committee, external consultants). Currently, there appear to be gaps in this knowledge.
 - We noted an opportunity to strengthen knowledge-sharing within the Treasury team. Specifically, engaging personnel responsible for cash, investments, and debt management in internal conversations about university strategies that may be impacting their activities may provide a more effective approach to ensuring initiative success. Treasury department enjoyed a long run of low turnover and seasoned employees. As individuals retired or left the team, their responsibilities have not always been effectively transitioned to new or existing team members. There may be an opportunity to cross-train the department members as well, to create better awareness of responsibilities and interrelatedness of operations. The incoming Treasurer should review and update, if

necessary, the existing processes for the Treasury team training and knowledge transfer, particularly during staff turnover, to ensure the continuity of strong practices and controls.

- We recommend developing and deploying training to all appropriate parties who use cash flow information for decision making or related advice. This training should be periodically reviewed for relevance of content and ensure appropriate individuals receive it.

Acknowledgement & Appreciation

We would like to express our appreciation to all the individuals whom we interviewed and who provided supporting documentation during our review. Everyone we spoke with was transparent, thoughtful, and had the best interests of university in mind.

Appendix I:

Regent Policy 2.C.3 Finance Committee

The Finance Committee of the Regents of the University of Colorado shall be a standing committee. The primary function of the committee is to oversee the fiscal stability and condition of the university as well as the university's facilities and operations. The Finance Committee monitors the university's financial operations, debt level and investment performance.

The Board of Regents as a whole must exercise the fiduciary responsibilities and to provide guidance on fiscal policy and planning matters. To this end, the areas of tuition, fees, compensation, issuance of debt and the annual operating budget shall be the purview of the full board.

The Finance Committee shall have the following duties and responsibilities:

(A) The Finance Committee shall recommend to the Board of Regents:

- (1) long-range financial planning strategies;
- (2) long-range facilities planning strategies, including facilities plans for each campus, the annual and 5-year and 10-year capital construction plans, 10-year master plans and financing, capital construction proposals, including those for auxiliaries;
- (3) financial performance and asset allocation guidelines and other policies related to the university's treasury function;
- (4) real estate transactions, including acquisition, disposal, operating and life cycle costs, the maintenance of facilities, and the use of university grounds, buildings and other property; and
- (5) projects included in the university capital budget and capital budget amendments.

(B) The Finance Committee shall review and report to the Board of Regents as necessary:

- (1) selected financial metrics that measure the university's fiscal condition;
- (2) the annual financial statements in conjunction with the Regent Audit Committee;
- (3) periodic reports including, but are not limited to: enrollment, financial aid, fundraising, research, procurement activity and University Risk Management;
- (4) the annual report on unrestricted net position;
- (5) total indebtedness of the university;
- (6) quarterly capital planning and project management reports;
- (7) the investment portfolio;
- (8) regular updates to the state revenue and expenditure forecast maintained by the system CFO;

(9) the role, impact and management of university-related entities and supporting organizations; and

(10) other financial reports as requested by the committee.

[Source: [Policy 2: Regents of the University | University of Colorado \(cu.edu\)](#) accessed March 6, 2023]

Appendix II:

Regent Policy 13.A University Investments

The Treasurer of the University shall invest the university's financial assets primarily in cash equivalents, debt instruments, equities, and alternative strategies, using external managers and commingled and mutual funds, including the University of Colorado Foundation's Long Term Investment Pool, where appropriate, with advice from the University Investment Advisory Committee, according to the following:

- (A) The Prudent Investor Rule within the Colorado Uniform Prudent Investor Act;
- (B) The Uniform Prudent Management of Institutional Funds Act;
- (C) Applicable federal and state laws and regulations; and
- (D) Regent laws, policies, and resolutions. Examples of these resolutions are:
 - (1) institutional neutrality (South African and other investments), and
 - (2) Sudan divestment.

For each operating and non-operating fund for which discretion over investments lies with the university, the Treasurer of the University shall develop written guidelines which:

- (A) Document the purpose of the portfolio and the use of earnings thereon;
- (B) Specify the appropriate time horizon and risk profile;
- (C) Establish diversification limits by asset class, sector, industry, and issuer;
- (D) Communicate other restrictions and limits;
- (E) Inform the reader of the desired balance between safety, liquidity, and yield;
- (F) Select performance benchmarks and explain their use in the review processes;
- (G) If employed, document securities lending limits and goals;
- (H) For the operating funds known as the University Treasury Pool, establish adequate earnings distribution and stabilization reserves; and
- (I) Set in writing the process used to periodically review the investment strategy and the guidelines.

Members of the university's Investment Advisory Committee shall be chosen by the Treasurer of the University in consultation with the vice president for budget and finance. There shall be at least five members of this committee as required by C.R.S. § 23-20-117.5 (4). No member of this committee may be in the business of selling investment services or advice, brokering investments, or have a potential conflict of interest. This committee shall provide advice to the treasurer on investment strategies and goals.

The Treasurer of the University is authorized to designate qualified employees of the treasurer's office who can buy, sell, and transfer certificates of stock, bonds, and approved

funds, and/or other similar financial instruments held in the name of the Regents of the University of Colorado, the University of Colorado, or any of the divisions thereof in order to efficiently manage and invest the university's financial assets.

[Source: [Policy 13: Business and Finance | University of Colorado \(cu.edu\)](#) accessed February 3, 2023]