

APPROVED BY THE
BOARD OF TRUSTEES

MAY 10 2010

MEETING OF THE AUDIT, FINANCE, AND FACILITIES COMMITTEE

SECRETARY OF THE BOARD

OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS

Michele M. Thompson

FEBRUARY 22, 2010

This meeting of the Audit, Finance, and Facilities Committee was held on Monday, February 22, 2010, beginning at 1:00 p.m. via videoconference from the Urbana-Champaign and Chicago campuses. Mr. McMillan convened the meeting and asked the clerk to call the roll. The following committee members were present: Mr. Edward L. McMillan, Mr. James D. Montgomery, Mr. Lawrence Oliver II*, and Ms. Pamela B. Strobel. Mr. Lester H. McKeever, Jr., treasurer of the Board of Trustees, was also present.

Also present were Dr. Stanley O. Ikenberry, President; Mr. Walter K. Knorr, vice president, chief financial officer and comptroller; Dr. Mrinalini Rao, vice president for academic affairs; Mr. Thomas R. Bearrows, university counsel; Mr. Thomas P. Hardy, executive director for university relations; Mr. Michael B. Bass, interim executive director for governmental relations, and associate vice president for capital programs and real estate; Ms. Julia Zemaitis, executive director for university audits; Mr. Douglas E. Beckmann, senior associate vice president for business and finance; Dr. W. Randall Kangas, associate vice president for planning and budgeting; Dr. Heather Haberaecker, executive assistant vice president for business and finance; Dr. John G. Dempsey, executive director of facilities and services, Urbana campus; Ms. Helen Coleman, director of planning, facilities and services, Urbana campus; Mr. Clark Wise, director of construction management, Urbana campus; Mr. Larry Altenbaumer, consultant; Dr. Michele M. Thompson, secretary of the board of trustees and the university; Ms. Eileen Cable, special assistant to the secretary.

*Mr. Oliver participated via telephone.

Mr. McMillan thanked everyone for attending the meeting and asked Mr. Knorr to review the items that are planned for the agenda of the Board of Trustees meeting on March 10, 2010. Mr. Knorr began by providing an overview of the recommendation for student health insurance fees for the Urbana, Chicago, and Springfield campuses. He said that a 5 percent increase for the Springfield campus was recommended, and that the health insurance fees for the other two campuses were recommended to remain the same as this year's fees. Mr. Montgomery made a motion to recommend approval for forwarding this with the committee's support to the Board for consideration at the next Board meeting, and Ms. Strobel seconded. There was no disagreement with this.

Next, Mr. Knorr described proposed changes to the language related to the 403B plan for employees of the University, and indicated that the changes clarify the language that is currently in place. He also stated that the revised language complies with federal and State laws. Ms. Strobel made a motion to recommend that the item be forwarded to the Board with the committee's support for consideration at the next Board meeting, and Mr. Montgomery seconded this. There was no disagreement with this.

Mr. Knorr then introduced Dr. Haberaecker to provide a summary of the purchases that are recommended for presentation to the Board for approval at the March 10 meeting. Mr. Knorr stated that four of these are sole source items, and Dr. Haberaecker explained the nature of those recommended purchases, which were for highly specialized medical and technological purchases. Dr. Haberaecker also presented a proposed request for a sole source purchase for the Chicago campus that had not been included in the original information sent to the committee. She stated that it involves the purchase of a robotic surgical system and service contract for the

University of Illinois Hospital totaling \$2,654,000 to replace the current system purchased in 2000. She explained that the cost of the robotic system will be jointly funded by the hospital, the College of Medicine, and a private gift. She also presented a request for a sole source purchase of a data warehouse application for the hospital, stating that the clinical data from the data warehouse are an essential component of the research to be conducted as part of a \$5 million award from the National Institutes of Health for Clinical and Translational Science. Mr. Oliver asked why it was necessary for this purchase of a database and supporting maintenance to be a sole source purchase from Oracle. Dr. Haberaecker explained that the agreement for the University's administrative enterprise system requires the exclusive use of Oracle database products and support. The committee members discussed the items with Dr. Haberaecker, and Mr. Montgomery made a motion to recommend that the items be forwarded to the Board with the committee's support for consideration at the next Board meeting. Ms. Strobel seconded this. There was no disagreement with this.

Next, Mr. Knorr introduced the capital projects that are proposed for inclusion in the agenda of the next Board meeting, March 10, and provided a summary for each (materials on file with the secretary), including two design presentations. He said that one is for the Electrical and Computer Engineering Building at Urbana and the other is for a building addition at the College of Medicine at Peoria for a Cancer Center. He then asked Mr. Bass to comment on these projects. Mr. Bass reviewed the projects and the funding sources for each. Committee members discussed the possibility of rephrasing the item titled, "Award Contract for Landscape and Lighting, Ikenberry Commons, Urbana," because they thought a title referring to site preparation would be more accurate. They also discussed a proposed lease for the Mile Square Health Clinic, at Chicago, and the Newmark Civil Engineering Student Center Addition, at Urbana. Mr.

Oliver, who was attending the meeting by telephone, had to depart at 1:25 p.m., shortly after the discussion of proposed capital projects concluded. Ms. Strobel made a motion to recommend that the agenda items be forwarded to the Board with the committee's support for approval at the next meeting. Mr. Montgomery seconded this. There was no disagreement.

Mr. Knorr then invited Ms. Zemaitis to summarize a report concerning internal audit activity through the second quarter that ended on December 31, 2009. She began by providing an overview of internal audit activity through the second quarter ending December 31, 2009. She also gave an overview of the Office of University Audits, including the mission of the office which she said is to protect and improve the University and University Related Organizations. She described the number and qualifications of the staff in the office, as well as the office's risk-based approach used in creating the annual audit plan. She also provided an overview of the audit plan completion status, stating that 54 percent of the audits planned for this year had either been completed or initiated, a summary of the 28 total reports issued to date categorized by audit opinion type, and a chart of high and moderate risk audit report findings by campus. Finally, she reviewed a trend analysis and aging analysis of the implementation of internal audit recommendations.

Next, Dr. Haberaecker provided members of the committee with an overview of Senate Bill 51 (SB 51), a piece of ethics legislation that takes effect on July 1, 2010, and will affect the organizational structure and timing of University procurements, including capital projects. Under the legislation, she explained that a new Chief Procurement Officer (CPO) for Higher Education will be employed by the Executive Ethics Commission. She said this individual or the CPO appointed State Procurement Officers (SPO) will be responsible for approving all awards

above the bid limit for the University, and noted that the Assistant Vice Presidents for Business and Finance at the University currently have this responsibility. She stated that these new positions will be totally independent of higher education.

Dr. Haberaecker also reviewed other pertinent changes required by this legislation, such as reporting on all communications with potential vendors, charging vendors a fee for submitting bids, and public hearings for sole source purchases. Other University staff members described current activities designed to improve SB 51, including an offer to provide assistance for the process of selecting the CPO/SPO's, and implementing the current provisions of the legislation on July 1.

Next, Mr. Knorr introduced Mr. Altenbaumer to provide a presentation on the University's Energy Procurement Policy. Mr. Knorr explained that the presentation was designed to provide the committee an update on progress under the provisions of the energy procurement policy authorization and to preview additional authorizations that will be requested to provide additional flexibility for the program. Mr. Altenbaumer said the three primary objectives of the request include: ability to achieve energy cost results consistent with budget; mitigation of exposure to market volatility; and expectation of realizing energy costs that over time will be consistent with longer-term market averages.

Mr. Altenbaumer briefly reviewed market pricing for both natural gas and electricity for the past nine years. He stated that the current Board authorization provides for forward purchases of energy commodities on a rolling thirty-six month basis, and he gave an example to illustrate how this policy has been implemented for purchases of natural gas. He explained that the foundation of the policy utilizes a dollar-cost-averaging approach to buy incremental

purchases of natural gas on a ratable basis over the thirty-six month period. He noted that the policy incorporates flexibility and provides for some moderation in purchases.

Mr. Altenbaumer said that while this program has been implemented for purchase of natural gas, the different physical and market characteristics of electricity have made its implementation for purchase of electricity more limited. His market review also included an assessment of energy market fundamental analysis.

Mr. Altenbaumer then presented the committee a preview of plans to request Board authorization to incorporate the utilization of limited financial transactions to provide greater flexibility and the ability to meet the overall objectives of the procurement policy. He said that some of the expected benefits include: improved flexibility and liquidity; greater ability to match the actual purchases with the specific needs of the University; better market access and efficiency; and improved ability to utilize financial transactions to further limit risk exposure for the University. He reviewed with the committee a list of specific types of financial transactions and a process describing the steps to be taken prior to seeking formal approval. The committee expressed no objection to having this request for authorization brought to the Board for consideration and approval at its meeting on May 20, 2010.

Lastly, Mr. McMillan asked Mr. Knorr to provide a brief report of the status of the State appropriation. Mr. Knorr stated that the University did not receive any funds from the State in February 2010, which means the State owes the University \$478.0 million of the appropriation for fiscal year 2010. He also noted that the federal stimulus funds that were expected had not been received through State channels provided for distribution. Before concluding the meeting, President Ikenberry briefly commented on the design presentations for new facilities mentioned

earlier that are scheduled for presentation at the Board meeting on March 10. The president stated that the design for the Electrical and Computer Engineering Building is being revised, and, if the revised design is satisfactory, he will recommend approval of it to the Board at its March 10 meeting. Mr. Knorr told the committee that he would like to set dates for future committee meetings and would communicate those to the members. He stated that the date for the next meeting is May 10 at 1:00 p.m.

Committee Meeting Adjourned

There being no further business, Mr. McMillan asked for a motion to adjourn. On motion of Mr. Montgomery, seconded by Ms. Strobel, the committee meeting was adjourned at 2:30 p.m.

Respectfully submitted,

Michele M. Thompson

Clerk

Eileen B. Cable

Assisting

Edward L. McMillan

Chair