

MEETING OF THE AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE

OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS **APPROVED BY THE COMMITTEE**

July 12, 2010

SEP 13 2010

Michele M. Thompson

SECRETARY OF THE BOARD

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, July 12, 2010, beginning at 1:00 p.m. via videoconference in Room 364, Henry Administration Building, 506 South Wright Street, Urbana; Room 414, Administrative Office Building, 1737 West Polk Street, Chicago; and the Hatmaker Room, Room 550, Public Affairs Center, One University Plaza, Springfield. Mr. McMillan, chair of the committee, 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, and Ms. Pamela B. Strobel.

Also present were President Michael J. Hogan; President Emeritus Stanley O. Ikenberry; Mr. Walter K. Knorr, vice president/chief financial officer and comptroller; Dr. Mrinalini C. Rao, vice president for academic affairs; Dr. Avijit Ghosh, vice president for technology and economic development; Mr. Thomas R. Bearrows, University counsel; Mr. Thomas P. Hardy, executive director for University relations; Ms. Katherine Laing, executive director for governmental relations; Dr. Lisa Troyer, executive assistant to the president and chief of staff, and Dr. Michele M. Thompson, secretary.

In addition, the following were present: Dr. Joseph Finnerty, professor of finance, College of Business, Urbana, representing the University Senates Conference; Ms. Julie A. Zemaitis, executive director, University audits; Mr. Michael B. Bass, senior associate vice president for capital programs and real estate; Mr. Douglas E. Beckmann, senior associate vice president for business and finance; Dr. Charles Evans, executive associate vice president for

academic affairs and University outreach; Dr. W. Randall Kangas, associate vice president for planning and budget; Ms. Maureen Parks, assistant vice president for human resources; Ms. Margaret O'Donoghue, special assistant to the president; Dr. Heather Haberaecker, executive assistant vice president for business and financial services, Chicago; Ms. Maxine Sandretto, assistant vice president for business and financial services, Urbana; Dr. John Dempsey, executive director of facilities and services, Urbana; Mr. Scott Rice, associate University counsel; Dr. Michael DeLorenzo, associate vice president for student services, Urbana; Dr. Menah Pratt-Clarke, interim assistant chancellor, Urbana; Mr. Joseph Vitosky, assistant vice president, capital programs and real estate; Dr. Peter Newman, assistant vice president, treasury operations; Mr. Kevin Duff, University planning and design; Mr. John Collins, director of housing division, Urbana; Mr. Clark Wise, director of construction management, Urbana; Ms. Jill Maxey, associate director, planning and design, Urbana.

The following media representatives were also in attendance: Mr. Jeff Bossert, WILL; Mr. Patrick Phingston, WDWS; Ms. Julie Wurth, *The Champaign-Urbana News-Gazette*.

Review of Design for Residence Hall Number Two, Stanley O. Ikenberry Commons, Urbana

Mr. McMillan introduced Mr. Paul Wuennenberg and Mr. Joe Chronister, representatives of the architect of record, FGM Architects, Inc. and asked them to briefly present the design for the strategic plan and update for phases E and G of the Stanley O. Ikenberry Commons, Urbana, which pertain to the design of residence hall number two, to be located at Peabody and First Streets (materials on file with the clerk). It was noted that a recommendation for Board approval of this would be presented for the Board's consideration at its July 22, 2010 meeting. Mr.

Wuennenberg then reviewed the internal and external design for this residence hall and noted that space had been added to this building since the strategic plan for it in 2006. He said that there would be a link between the Commons neighborhood and the ARC building across the street and a pedestrian walkway. He said that the design provided for LEED certification of silver and possibly gold. There was discussion of this and Ms. Strobel asked for assurance that the building would utilize all energy efficiencies possible. It was also pointed out that the roof would be covered with a white membrane for greater energy efficiency.

Presentation of Two-Year Internal Audit Plan for Fiscal Years 2011 and 2012

Mr. McMillan invited Ms. Zemaitis to present the audit plan for the next two years (materials on file with the clerk). Ms. Zemaitis said that State statute requires that the president of the University approve a two year plan for audits each year, and she added that this plan is continually reviewed and adjusted. She stated that the plan is risk based. She also reviewed the mission of the office of University audits: to protect and provide guidance to University leaders. She then reported the staffing of the office and the benchmarks set by several organizations, including the Institute of Internal Auditors and the Association of College and University Auditors, observing that the University of Illinois has fewer healthcare auditors than peer universities. She stated that the University's financial constraints have served as the impetus for greater use of technology among the University's auditors. Also, she explained that in order to address the need for more auditors in the healthcare area, she has assigned two auditors who are generalists to assist in performing healthcare audits. When asked whether these benchmarks

presented valid comparisons, she stated that these sources provided the best available comparison data.

Ms. Zemaitis told the committee that there are over 1,000 auditable units in the University. She said the auditors use data mining and analysis to assess risk, and then overlay this with individual interviews from throughout the University. She said that the audit office considers what other organizations are doing in terms of auditing and what the federal government is auditing currently.

In response to a question from President Hogan about an intermediate step between asking a question about risk and having an audit of a unit, Ms. Zemaitis referred to resource materials available on the office of University audits website that provide briefings on several topics. Also, Mr. Beckmann recommended the consulting services of the accounting division.

Ms. Zemaitis reported that the following areas were considered high level focus areas for audits: entity-level controls, the healthcare areas, grants and contracts, infrastructure and related debt, and information technology. She commented on the fact that the office of audits is striving to make recommendations for greater efficiency in the University.

Presentation on Enterprise Risk Management and Derivatives Use Policy

Mr. Dan Mortland reviewed plans for introducing an enterprise risk management system for the University (materials on file with the clerk) and reported to the committee members that he had interviewed the University officers and other University leaders regarding a risk management system, and he would be requesting interviews with the members of the Board to discuss this. He noted that his office and the office of University audits consult with each other. After

reviewing the materials, he outlined a process for risk management. The committee discussed the plans, advising against a cumbersome structure that might make risk management impossible, and suggested a committee with a small membership that would include faculty representation. The committee members also urged that it be made clear that the risk management process reports to the president. Dr. Ikenberry suggested selecting a few University units for testing the process.

Mr. Mortland next reviewed a recommendation for use of derivatives that will be presented to the Board at its meeting on July 22, 2010, and explained that it is suggested as an aspect of risk management and as a measure to provide for budget management. It was stressed that this was not for speculation, and explained that derivatives were approved on a case-by-case basis heretofore, and that a policy was now in order. It was explained that there would be monthly meetings arranged to evaluate these and that a method of dual control involving a division of responsibility between two persons for derivatives would be instituted.

The committee was assured by administration that use of derivatives would be monitored closely and that the plan of the office of University audits stresses avoidance of risk exposure.

Report of Compliance Audit for Fiscal Year 2009 Conducted by Illinois Auditor General

Ms. Sandretto reported on the compliance audit report for 2009, conducted by the Illinois Auditor General, and stated that there were 47 findings based on federal and State guidelines, which is significantly more than in previous years (see materials on file with the clerk). She indicated that there are at least two reasons for this: one is that in 2008, the American Institute of CPAs issued new standards for risk assessment that are more conservative than earlier standards,

particularly with regard to scrutiny of federal awards and contracts; and second, 2009 was the first year of a six-year contract for the audit firm KPMG, which was engaged by the Illinois Auditor General to audit the University.

Ms. Sandretto stated that of the 30 federal compliance findings, which included findings related to financial aid and awards for sponsored research, there were two material weaknesses cited. She said that the administration had accepted 22 of these findings, several of which involved human error and that the remaining eight are being reviewed for resolution. She said that the requirements of FERPA prevented the University administration from releasing certain information, and that there was one finding categorized as a scope finding as a result. Mr. Beckmann explained that this situation results from a conflict with State and federal laws. He said that one way to handle this in the future will be to apprise students of the fact that financial aid information will be released to the University's auditors. He observed that this is a low risk area in terms of privacy.

The committee discussed this and noted that it is not unusual for the number of findings to increase over previous years with a change in auditors, and urged that the administration disagree judiciously with audit findings.

There was also discussion of the finding that minutes of the Board of Trustees meetings were late in being presented to the Board for approval in 2009 and that this had been corrected, with minutes of Board meetings now presented for approval at the next regular Board meeting.

Report on Minority and Female Business Enterprise Matters

Dr. Haberaecker presented a report on the Illinois Procurement Code, given several new amendments, stating that it was a very complex statute with multiple levels of approval required (materials on file with the clerk). She also reviewed the MAFBE Act, as well as current and planned University MAFBE/diversity efforts.

She indicated that there is a current set aside program in the MAFBE Act that is race neutral for small businesses. She also said that alternative means for accomplishing this same objective may be more cost-effective, given the administrative burden involved in developing and administering a program with such restrictive sales volumes for small businesses; i.e., small dollar purchases below the bid threshold.

Dr. Haberaecker reported that the MAFBE conferences held annually at the Chicago campus are successful in attracting vendors and contractors and that the Chicago campus is to take the lead in increasing goals for engaging MAFBE contractors and vendors.

Mr. Bass also reported that a change in statute, effective July 1, 2010, requires that prime contractors for construction projects provide the name and subcontract value designated for the MAFBE firms that are to be involved in the project at the time a bid response to a solicitation for award of contract is submitted. He stated that this statutory change was made to protect MAFBE subcontractors from the potentially deleterious impacts of "bid shopping." He said that there are plans to create a policy for recommendation to the Board that would be similar to the one currently used by the Capital Development Board to determine whether a prime contractor has fulfilled a good faith effort to meet University MAFBE goals. He indicated that in the absence of evidence of a good faith effort to do so, a potential contractor may be disqualified in the

bidding process. Further, he stated that these new requirements would be added to all University bid documents and policy statements. Discussion among the committee members followed and they advised that bidders for University business be made aware of the new law as soon as possible and that the concepts of responsive and responsible bids be clearly communicated. There was also discussion on whether the Board should set policy on MAFBE goals.

Mr. Bass stressed that the new goals that will be set for the University will be high aspiration goals that will not be easily attained; requiring significant effort to achieve. He said that as soon as the goals that are to be set for Urbana and Chicago are consistently achieved, new goals will be set that will be more ambitious.

Review of Items Proposed by the President of the University
for the Agenda for the July 22, 2010 Board Meeting

Mr. Knorr reviewed the following items that fall within the purview of the Audit, Budget, Finance, and Facilities Committee that will be recommended to the Board for consideration at the next Board meeting, barring objection from the committee:

- Housing fees for the Beckwith Residence Hall, Urbana
- Sustainable fee, resulting from a student referendum, Urbana
- A strategic plan for the Stanley O. Ikenberry Commons, Phases E and G
- Contract for architect/engineer for renovations to the University of Illinois Hospital, Chicago
- Purchases: three purchases at the level for which Board approval is required include the purchase of a high technology instrument for the hospital, engagement of a health care

consultant to review and improve operating room procedures and management, and specific technological support for the petascale facility at Urbana. In response to an inquiry from Mr. Oliver, the committee was told that none of these vendors are MAFBE vendors.

There was no disagreement regarding placing these items on the Board agenda for the July 22, 2010, Board meeting.

Comments from Vice President Knorr

Mr. Knorr announced that the budget request for fiscal year 2012 was being prepared as an incremental budget and would be presented to the Board for approval at its September 23, 2010, Board meeting.

Next, he reported that the borrowing program approved for State's public universities for 2011 may require that debt service be added to the 2012 budget request. He said that the University's fiscal year 2012 State budget request currently calls for an increase of \$65.7 million. He told the committee members that the State legislation permitting borrowing by the public universities authorized borrowing 75 percent of a university's receivables, which would equate to \$200.0 million based on the June 2010 receivables for the University of Illinois. He said that banks had evinced interest and that the administration was now pursuing a line of credit for the University. He indicated that he would keep the committee apprised of the amount recommended for borrowing. He also stated that the University had received 60 percent of its appropriation for fiscal year 2010 as of this date.

Mr. Knorr then said that the campus' priorities for capital projects are listed in the budget and that the Governor has reappropriated the 2010 capital programs in the 2011 budget. Mr. Knorr stated that in 2010, the University of Illinois received funding for Lincoln Hall remodeling at Urbana, \$60.0 million to complete the funding for the petascale facility, and \$15 million for the building addition to the College of Medicine at Rockford.

He said that the 2011 capital budget represents the residual of projects not funded in 2010.

Natural History Building, Urbana

Mr. McMillan invited Mr. Clark Wise, director of construction management, Urbana, to report on a recent assessment of the Natural History Building at the Urbana campus. Mr. Wise stated that during a recent review of the building, the section of the building that was added to the original facility in 1908 was deemed unsafe, and had recently been vacated. He reported that in order to stabilize the building by August 23, the start of the fall semester, several repairs must be made immediately as this is an emergency situation. He said that it may be necessary to ask the president to authorize contracts for repair and restoration on an emergency basis and to report that decision to the Board.

Committee Meeting Adjourned

There being no further business, Mr. McMillan requested a motion to adjourn the meeting. The motion was made by Mr. Oliver, seconded by Mr. Montgomery, and approved unanimously.

The committee meeting adjourned at 3:20 p.m.

Respectfully submitted,

Michele M. Thompson

Clerk

Edward L. McMillan

Chair