

MEETING OF THE AUDIT, FINANCE, AND FACILITIES COMMITTEE  
OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS

MAY 10, 2010

APPROVED BY THE  
COMMITTEE

JUL 12 2010

*Michele M. Thompson*  
SECRETARY OF THE BOARD

This meeting of the Audit, Finance, and Facilities Committee was held on Monday, May 10, 2010, beginning at 1:00 p.m. via videoconference in Room 364, Henry Administration Building, 506 South Wright Street, Urbana; the Hatmaker Room, Room 550 Public Affairs Center, One University Plaza, Springfield; and Room 414, Administrative Office Building, 1737 West Polk Street, Chicago. Trustee Edward L. McMillan, chair of the committee, convened the meeting and asked the clerk to call the roll. The following committee members were present: Mr. Derek R. Felix, Mr. Edward L. McMillan, Mr. James D. Montgomery<sup>1</sup>, Mr. Lawrence Oliver, and Ms. Pamela B. Strobel. Mr. Lester H. McKeever, Jr.<sup>1</sup>, treasurer of the Board of Trustees, was also present.

Mr. McMillan asked all others that were present to introduce themselves. In order of introductions, this included: President Stanley O. Ikenberry; Mr. Walter K. Knorr, vice president, chief financial officer and comptroller; Mr. Thomas R. Bearrows, university counsel; Mr. Thomas P. Hardy, executive director for university relations; Dr. Mrinalini Rao, vice president for academic affairs; Dr. Heather Haberaecker, executive assistant vice president for business and finance; Ms. Jodi Cohen, *The Chicago Tribune*; Ms. Donna S. McNeely, university ethics officer; Dr. Tih-Fen Ting, associate professor of environmental studies, chair of the Senate Executive Committee and chair of the Springfield campus senate; Mr. Douglas E. Beckmann, senior associate vice president for business and finance; Dr. W. Randall Kangas, associate vice

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<sup>1</sup> Mr. Montgomery and Mr. McKeever arrived at 1:20 p.m.

president for planning and budgeting; Dr. Joyce Tolliver, associate professor of Spanish and chair of the Urbana senate executive committee; Mr. Steven A. Veazie, deputy, University counsel; Dr. Menah Pratt-Clarke, assistant chancellor and director of the office of equal opportunity and access, Urbana; Mr. Michael B. Bass, executive director for governmental relations and associate vice president for capital programs and real estate; Dr. Avijit Ghosh, vice president for technology and economic development; Ms. Julie A. Zemaitis, executive director for university audits; Mr. Patrick Patterson, controller; Ms. Margaret O'Donoghue, assistant to the President; Ms. Kristine Campbell, assistant vice president of academic affairs; Ms. Maxine Sandretto, assistant vice president for business and finance; Dr. William Berry, associate chancellor, Urbana; Mr. Clark Wise, director of construction management, Urbana; Ms. Maureen Parks, assistant vice president of human resources, university administration; Dr. Craig S. Bazzani, senior advisor, University of Illinois Foundation; Dr. Barclay G. Jones, professor of mechanical engineering, college of engineering, Urbana, member of the University Senates Conference; Mr. Patrick Phingston, WDWS Radio, Champaign-Urbana; Mr. J. Michael Lillich, assistant director of university relations, university administration; Mr. Scott Rice, associate university counsel; Mr. John Dempsey, director of facilities and services, Urbana; Mr. Paul Wood, *The News Gazette*, Champaign-Urbana; Mr. Jeffrey M. Bossert, WILL Radio; Dr. Michele M. Thompson, secretary of the board of trustees and the university; Ms. Eileen Cable, special assistant to the secretary.

Mr. McMillan thanked everyone for attending the meeting and said the first item on the agenda is to approve the minutes from the meeting held on February 22. On motion of Mr. Felix, seconded by Ms. Strobel, the minutes were approved unanimously.

Next, Mr. McMillan asked Dr. Bazzani to provide a brief report on the ongoing work of the Administrative Restructuring and Review Work Group (ARR) at the University. Dr. Bazzani stated that the team assigned to this is studying eleven functional areas in terms of organization. He focused on the areas of information technology and procurement, stating that there are functions that might be merged in these areas. He also mentioned new University-wide processes that might be implemented, such as the use of common telephone and email systems across the three campuses and University administration. Dr. Bazzani said the group will recommend a deeper look at centralizing and implementing a shared services model, which would involve fewer employees and provide a higher level of service. He also noted that the team is not advocating a one-size-fits-all approach, but that it is cognizant of differences in needs for service.

Ms. Strobel asked if a recently rescinded management consulting contract at Urbana would have received greater initial scrutiny under the proposed restructuring, and Mr. McMillan asked how it was approved through the current system. Ms. Strobel noted that she would like to know more about the process to approve this particular type of contract. President Ikenberry explained that this report would deal with improving performance and coordination in some areas, including procurement, but wouldn't deal specifically with contract approval procedures. This concluded Dr. Bazzani's report.

Next, Mr. McMillan asked Mr. Beckmann to discuss the University's annual financial audit and to provide an update on the compliance audit, both conducted by the Illinois Auditor General. Mr. Beckmann informed the committee that the compliance audit had not been issued.

He said that the financial audit is complete and was sent to trustees at the end of March, and asked Mr. Patterson to discuss this audit in more detail.

Mr. Patterson said the financial audit was conducted by KPMG, as special assistant to the Auditor General of the State of Illinois. He reported that the audit opinion was without qualifications, indicating that the University's financial statements were fairly presented. He stated that this was the first year that State universities were required to hire separate auditors to perform audits of their related organizations, such as foundations, alumni associations and other such units. He said additional time was required to complete the initial audit of Singapore Research LLC. Mr. Patterson also reported that KPMG presented three University-wide findings in their report under government audit standards that recommended enhancements to the University's procedures and controls in the areas of information systems access, procurement card transactions, and year-end accounts payable accruals. He said that these findings are accepted, and administration intends to follow the auditors' recommendations to achieve improvement in these areas. Lastly, he stated that no financial statement adjustments were required in connection with these findings, and additional details of the audit are available on the Auditor General's website.

Mr. Patterson also provided an update on the University's finances. He stated that the University ended the fiscal year with total assets of \$5.2 billion, total liabilities of \$2.8 billion, and net assets of \$2.4 billion, an amount which he described as stable as compared to the prior year. Mr. Patterson said certain categories of revenue did show growth during the year, such as tuition, gifts, grants, hospital, and other medical activities. He explained this revenue growth was offset by declines in investment and interest income, and increases in expenses across a

variety of functional categories. He said that the University ended fiscal year 2009 in solid financial condition; however, the State's fiscal situation and related impact on the University continue to be a concern.

Mr. Montgomery inquired about the \$2.4 billion in net assets and how that might affect the ability to continue to meet operating expenses. Mr. Knorr referred to the \$376.0 million receivable from the State appropriation and indicated that this issue is a concern, and Mr. Beckmann added that most of the \$2.4 billion in net assets is represented in University buildings and facilities. Mr. Felix asked how the audit findings will be addressed, and Mr. Patterson said improved procedures would be introduced with respect to periodic user access reviews and user access profiles. Mr. Beckmann added that some tighter controls were already being implemented.

Next, Mr. McMillan asked Ms. Zemaitis to summarize a report on the internal audit activity through the third quarter that ended March 31, 2010 (materials on file with the secretary). Ms. Zemaitis provided an overview of the audit plan completion status through the third quarter, stating that 71 percent of the audits planned for this year had been either completed or initiated, and 92 percent of the time reserved for investigations and special projects had been used. She also provided a summary of the 45 reports issued to date categorized by audit opinion type and a chart of high and moderate risk audit report findings by campus. She described the criteria used to rate audit issues as high or moderate risk, and provided a chart depicting high and moderate risk audit issues concentrated in the areas of information technology security, deficit reduction planning, and research laboratory safety. Ms. Zemaitis noted that audit issues presented opportunities for increased efficiencies in the areas of maximizing revenue and

information technology organizational streamlining, and she reviewed a trend analysis and aging analysis of the implementation of internal audit recommendations. She also discussed responsibility for ensuring compliance, the process for handling outstanding issues, and reasons for withdrawal. Ms. Zemaitis agreed to bring a report describing the outstanding items from 2006-2009 to the July committee meeting.

Mr. McMillan then asked Mr. Knorr to review the draft items under the purview of the committee that are planned for the agenda of the Board of Trustees meeting on May 20, 2010 (materials on file with the secretary). Mr. Knorr presented the preliminary operating budget for fiscal year 2011, which he said includes a 6.2 percent reduction in State funding. He stated that approval of this item would enable the University to continue to operate and follow State statute. Next, he introduced the second item planned for the agenda, which requests tuition and fee increases for cost recovery, off campus and aviation programs for fiscal year 2011. Mr. Knorr explained that there are about six cost recovery graduate programs in Urbana and provided details about the three programs requesting increases and the amount of each. Mr. Knorr, Dr. Kangas, and members of the committee discussed the nature of cost recovery programs and how tuition is established for each. Next, Mr. Knorr reviewed the details of the third proposed agenda item, an increase in application fees at Urbana, Chicago, and Springfield, and the fourth proposed item, which recommends renewal of the Chicago Transit Authority U-Pass contract. Mr. Knorr then reviewed another proposed item, which would authorize the issuance of auxiliary facilities revenue bonds, and indicated that there was a short presentation related to this item included in the packet that was mailed to committee members. He explained that these bonds would finance projects related to Ikenberry Commons in Urbana and housing renovations in Springfield. He also provided details about the issuance of the bonds. Mr. Montgomery added

that the University has had a history of using MAFBE vendors in public financing, and he hopes there can be improvements in the use of such firms in purchasing and contracts.

Next, Mr. Knorr reviewed the change recommended to the *Bylaws* of the Board of Trustees, which proposes to change the name of the Audit, Finance, and Facilities Committee to Audit, Budget, Finance, and Facilities Committee. He then presented the fiscal year 2011 recommended agreements for the University of Illinois Alumni Association and the University of Illinois Foundation and indicated that both contained reduced funding recommendations compared to last year. The trustees and President Ikenberry discussed the ramifications of reduced support to these entities, and President Ikenberry stated that he would have preferred not to have had to decrease funding to both groups; however, the current fiscal constraints require it. With no further discussion of these items, Mr. Knorr asked Mr. Bass to present the proposed capital project recommendations and leases, which he said are funded primarily from grants and auxiliary facilities revenues.

Mr. Bass introduced the capital projects and leases that are proposed for inclusion in the agenda of the Board meeting, May 20, 2010, and provided a summary for each (materials on file with the secretary). He introduced the first project, renovation of the research laboratory in the College of Dentistry at Chicago and said that this project has received federal stimulus funding. He noted that the renovated laboratory will increase research space. Next, he presented proposed contracts for phases C and D of Stanley O. Ikenberry Commons that total \$16.1 million and said that there were 32 bids for these contracts. Mr. Bass then introduced the extension of contracts for the Job Order Contracting (JOC) System in Chicago, noting that three of the four firms are MAFBE-owned companies. He also presented recommended projects for housing renovations at

the apartment buildings at Springfield, which total \$6.965 million. Lastly, he reviewed the details of requests to lease space for the University of Illinois Multi-University Center at Oak Brook, and for the Extension Service in Peoria.

Ms. Strobel then asked for additional information about an item related to Mumford House in Urbana, which did not appear on the latest draft agenda. President Ikenberry provided a brief explanation of the action taken by the previous Board last year regarding the rehabilitation of Mumford House and said that an item will be brought to the Board at its meeting on May 20 recommending relief from that specific mandate, in light of the University's current fiscal circumstances.

Next, Mr. McMillan asked Dr. Haberaecker to provide a summary of the purchases that are recommended for presentation to the Board for approval at its May 20 meeting. Dr. Haberaecker asked Mr. Beckmann to introduce the first item, which would authorize the use of group purchasing contracts. Mr. Beckmann stated that the use of group purchasing saves time and money, and added that administration plans to create a strategy to make greater use of these in the future, while also complying with the procurement code. Mr. Montgomery asked if these are limited by dollar amount and whether these are bid or negotiated purchases. Mr. Beckmann explained that these purchases are bid in accordance with the State procurement code. He also provided examples of effective use of group purchasing contracts, including the Committee on Institutional Cooperation (CIC) contracts for library-related purchases and the Midwest Higher Education Consortium for the purchase of insurance.

Dr. Haberaecker then reviewed five recommended purchases, totaling \$23.3 million. She highlighted the two largest purchases, a beverage services contract with Coca-Cola for several



units at Urbana, and purchases of human blood and blood components from the American Red Cross and LifeSource Blood Services for the Medical Center at Chicago. She also presented two recommendations for purchase renewals, including a contract for coal and a contract for network access switching equipment in Urbana. She noted that CTG Inc., the vendor for the network access switching equipment, is a MAFBE firm.

With no further discussion, Mr. McMillan asked Mr. Knorr to address the status of the higher education borrowing Bill under consideration by the General Assembly. Mr. Knorr distributed a draft of the agenda item regarding short term borrowing that he said will be presented to the Board at its May 20 meeting (materials on file with the secretary). He reviewed details of the item and noted that it is dependent on the Governor signing Senate Bill 242, authorizing short term borrowing by State universities. President Ikenberry said that this is not a welcome circumstance but may be needed, and recommended approval of the agenda item when the time comes. He also added that Mr. Bass and others at the University worked with the General Assembly on the Bill.

Mr. McMillan said that tuition was not listed on the agenda, and asked President Ikenberry to comment. President Ikenberry said that the tuition item needs to be brought forward without delay and described some of the factors and considerations involved. He explained that the administration is attempting to deal with uncertainty and decreased State support while also protecting low and middle income students. Mr. Knorr added that some factors are dependent on decisions yet to be made by the State legislature.

Ms. Strobel asked about the recommended coal contract renewal and proposed meeting with Dr. Haberaecker to discuss the use of coal versus natural gas by the University. Dr.

Haberaecker said that the coal contract does reflect a negotiated price reduction, compared to the cost last year, and agreed to discuss it further after the meeting. Mr. Beckmann explained that the University needs some amount of coal each year, and also stated the amount of coal purchased according to the price listed in the contract might be reduced.

#### Committee Meeting Adjourned

There being no further business, Mr. McMillan stated that the next committee meeting is scheduled for July 12 at 1:00 p.m. and asked for a motion to adjourn. The motion was made by Mr. Montgomery, seconded by Mr. Oliver, and approved unanimously. The committee meeting was adjourned at 2:45 p.m.

Respectfully submitted,

Michele M. Thompson

*Clerk*

Eileen B. Cable

*Assisting*

Edward L. McMillan

*Chair*