

NOV 21 2011

Michele M. Thompson
SECRETARY OF THE BOARD

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

August 31, 2011

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Wednesday, August 31, 2011, beginning at 2:00 p.m. via videoconference in Room 1030, National Center for Supercomputing Applications, 1205 West Clark 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. 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. Edward L. McMillan, Mr. Lawrence Oliver, and Ms. Pamela B. Strobel. Mr. James D. Montgomery was absent. Mr. John W. Tienken, student trustee from the Springfield campus, was present.

Also present were Mr. Lester H. McKeever, Jr., treasurer; President Michael J. Hogan; Dr. Robert A. Easter, interim vice president, University of Illinois and interim chancellor of the Urbana campus; Mr. Walter K. Knorr, vice president/chief financial officer and comptroller; Dr. Mrinalini C. Rao, vice president for academic affairs; Dr. Avijit Ghosh, special assistant to the president; Mr. Thomas R. Bearrows, University counsel; Mr. Thomas P. Hardy, executive director for University relations; and Dr. Michele M. Thompson, secretary.

Attached is a listing of other staff members in attendance at this meeting, as well as some members of the media.

Mr. McMillan welcomed everyone to the meeting and stated that the first item on the agenda was to approve the minutes from the meeting that was held on July 11, 2011. On motion of Ms. Strobel, seconded by Mr. Oliver, the minutes were approved unanimously.

ADMINISTRATIVE REVIEW AND RESTRUCTURING

PROCUREMENT PRESENTATION

Mr. McMillan asked Dr. Ghosh to report on recommendations in the Administrative Review and Restructuring (ARR) report for revised procurement processes for the University. Dr. Ghosh referenced the hard work of many throughout the University and stated that approximately \$26.0 million has been saved as of July 31, 2011, through measures identified in the ARR. He said that half of these savings have resulted from greater use of University contracts that take advantage of the University's scale as a buyer and from increased use of technology to process transactions. He referred to additional initiatives that have resulted in significant savings, and he introduced Mr. Howard Engle from Deloitte Consulting, LLP, to present a report on that firm's recent assessment of procurement at the University and additional related opportunities for savings.

Mr. Engle introduced two colleagues, Mr. Omar Aguilar and Mr. Kenneth Porrello, also from Deloitte Consulting, LLP. Mr. Aguilar then began the presentation of the review (materials on file with the clerk) with an overview of steps the University has already taken to reduce external spending. He also described ways in which internal and external environments impede these efforts, and he provided a summary of the assessment that was conducted by Deloitte Consulting, LLP over a four week period. He described the project's objectives and scope, stated that the assessment supported many of the recommendations identified in the ARR report, and identified additional opportunities for reducing costs, which he reported could result in savings of \$30.5 to 38.5 million per year. He presented three recommendations: to increase

spending under management, to aggressively source addressable spend categories, and to transform the procurement organization within the University. Mr. Engle then provided a chart mapping the impact and complexity of existing and new procurement recommendations, and Mr. Aguilar stated that the focus of the assessment was to enable execution, emphasizing the need to create momentum and the importance of leadership. He concluded the presentation by providing a list of next steps.

Ms. Strobel asked for an example of an area that would reflect some of these recommended changes in a specific area of spending. The presenters used the purchasing of computers as an example, and said that the use of a limited number of computer models would make it possible to leverage greater purchasing power while also decreasing the cost of support. Mr. Douglas Beckmann, senior associate vice president for business and finance, told the committee that a computer standardization project is currently underway, and stated that negotiations with vendors are also in progress. Committee members also discussed the role of academic independence in higher education and also the difficulty of implementing changes in some administrative areas, and the presenters stated that both a mandate and culture change may be necessary to increase efficiency in these areas.

President Hogan thanked Dr. Ghosh for his contributions to the ARR steering committee and implementation committee, and for his involvement with the ARR report. He also expressed appreciation for the work of Mr. Beckmann and his staff for their efforts and progress in pursuing cost saving initiatives, and he thanked the representatives from Deloitte Consulting, LLP, for their assessment and report.

With no additional questions or comments, Mr. McMillan asked Mr. Knorr to review the recommended agenda items for the Board meeting scheduled for September 9, 2011.

REVIEW OF RECOMMENDED BOARD ITEMS FOR THE MEETING OF THE BOARD
OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS ON SEPTEMBER 9, 2011

University Operating Budget, Fiscal Year 2012, and

Academic and Administrative Appointments, Academic Year 2011-2012

Mr. Knorr referred to materials that had been sent to committee members in advance of this meeting and began his presentation on the budget summary for operations for fiscal year 2012 (materials on file with the clerk). He reviewed current circumstances that were considered in the preparation of this budget, and he presented the general revenue fund month end receivable from July 2006 through June 2011, noting that the State has not paid \$313.0 million of its fiscal year 2011 appropriation to the University. He reported a 5.2 percent increase in the operating budget for fiscal year 2012, with a 5.9 percent increase in unrestricted funds, 3.2 percent increase in restricted funds, and 9.7 percent increase in payments on behalf, which includes payments for pensions and healthcare for employees. He discussed the increase in unrestricted funds, which he said is derived primarily from tuition and institutional funds, and he also provided additional information regarding the general revenue fund appropriation, sponsored research restricted revenues, gift and endowment income, and hospital and medical service plan restricted revenues.

Next, Mr. Knorr showed the sources of revenue and presented a chart depicting planned spending in several areas for fiscal year 2012, noting that this is consistent with previous years. He provided a graph that showed the operating budget summary categorized by payments on behalf, restricted funds, and unrestricted funds in fiscal years 2007 through 2012, and highlighted increases in payments on behalf and restricted funds. He then presented unrestricted revenue components from fiscal year 2007 through 2012, and said that State support has decreased as the number of students attending the University has grown. Lastly, he presented the restricted

revenue components, and explained that both the budget summary and 2011-2012 academic year appointments would be mailed to trustees in advance of the Board meeting on September 9.

Fiscal Year 2013 Budget Request

Mr. McMillan then asked Dr. W. Randall Kangas, associate vice president for planning and budgeting, to provide a presentation regarding the fiscal year 2013 budget request (materials on file with the clerk) which will be on the Board's agenda for the September 9, 2011, Board meeting. Dr. Kangas explained that the annual budget request is required by the State, and that the request outlines the values and priorities of the University. He stated that these priorities include strengthening academic quality, addressing facility operations needs, and meeting inflationary and other cost increases. He described the timeline and cycle for this process and said that the budget request, upon approval by the Board, will be sent to the Illinois Board of Higher Education and then to the State. He also presented the combined capital budget request and provided some information about these proposed projects.

Purchase Recommendations

Next, Mr. McMillan asked Dr. Heather Haberaecker, executive assistant vice president for business and finance, to review the purchase recommendations that will be on the agenda for the meeting of the Board of Trustees on September 9, 2011 (materials on file with the clerk). Dr. Haberaecker discussed a change order to increase the existing contract for mercury deposition analytical services, and said this was a correction to an item that had been approved at the Board meeting on July 21, 2011.

Capital Items and Real Estate

Mr. McMillan then asked Mr. Michael Bass, senior associate vice president for capital programs and real estate services, to report on items related to capital projects and real estate that

will be on the agenda for the Board meeting on September 9, 2011 (materials on file with the clerk). Mr. Bass provided information regarding the item requesting approval to award a construction contract for apartment building housing renovations at Springfield to Johnco Construction, Inc., and stated that this is part of a project that was approved by the Board in May 2010. He said all contractors met the stated goal of 15 percent for diversity. He then presented an item requesting approval for the annexation of land by Urbana and the Champaign Sanitary District, and explained that this formalizes the annexation of the remainder of the Research Park land that includes the iHotel and University of Illinois Conference Center, which will enable continued sewage treatment services. Mr. Bass then provided information regarding the recommended item to name various spaces within Douglas Hall at Chicago, in recognition of donors.

There was no opposition to any of these recommendations being advanced to the Board as a whole.

REPORTS TO THE COMMITTEE

Internal Audit Report for Quarter Ended June 30, 2011

Next, Mr. McMillan asked Ms. Julie A. Zemaitis, executive director of University audits, to present the internal audit report for the fourth quarter, which ended on June 30, 2011 (materials on file with the clerk). Ms. Zemaitis presented the revised six-month audit plan completion status through June 30, 2011, and stated that 71 percent of audits are complete or have a report pending. She stated that the number of special investigations was higher than planned, and she told the committee that she is currently recruiting to fill two vacant positions for health care auditors. She provided information regarding the 18 reports that have been issued this quarter, and she showed the audit report findings by risk and priority rating and by campus, noting that

many of the reports are in the area of information technology. She then presented audit report findings by priority level, and showed an analysis of the implementation of audit recommendations from fiscal year 2009 through the fourth quarter of 2011, which showed that there are 448 open audit recommendations. She indicated that there has been progress in this area, and stated that 300 recommendations were implemented in fiscal year 2011. She thanked all involved for their efforts. President Hogan commented that the chancellors on each campus have been responsive, and Mr. McMillan commended their great progress. Ms. Zemaitis added that additional recommendations in the earlier audit of utilities have been implemented since June 30, 2011, and reported that there are now 16 remaining recommendations.

Next, Ms. Zemaitis presented the risk and priority rating for all open audit recommendations and all open audit information technology recommendations, and showed that the majority are considered to be a moderate risk or priority. She then provided a table reflecting the aging of outstanding recommendations by original expected implementation date, and said there has been focus on recommendations with original expected implementation dates of fiscal year 2010 and earlier. She provided an update and said that since June 30, 2011, this number has decreased from 71 to 64. Mr. McMillan commented that while there have been improvements in the average length of time from report issuance to the implementation of audit recommendations, there is a need for continued improvement. Mr. Oliver asked if it would be possible to be provided with data reflecting recommendations by their degree of complexity and difficulty to address, and Ms. Zemaitis explained that some of this is implied in the timeline for implementation. She provided some examples, and said she would discuss methods for presenting this type of information with Mr. Oliver at a later date.

Ms. Zemaitis then showed the aging of audit recommendations with original implementation dates within fiscal year 2010 and earlier as of June 30, 2011, and showed that this number has decreased from 155 to 71 since September 2010. She added that since June 30, 2011, the number of audit recommendations with original implementation dates of fiscal year 2010 and earlier has been reduced to 64. Mr. McMillan commended all involved on this progress. Ms. Zemaitis concluded her presentation by providing the number of high priority audit recommendations with original implementation dates of fiscal year 2010 and earlier. There were no additional questions or comments regarding her presentation.

Legislative Update, State Budget, and Finance Update

Mr. McMillan then asked Mr. Knorr to provide updates regarding legislation related to the committee's work, the State budget, and finances. Mr. Knorr referred to the unpaid State appropriation from fiscal year 2011, and said that \$125.0 million has been paid by the State as part of the fiscal year 2012 appropriation. He stated that the legislative veto session begins on October 24, and briefly discussed potential legislation related to pensions and Senate Bill 51, which deals with procurement regulations. He referred to materials sent to trustees in response to questions regarding investments and debt from the last committee meeting and Board meeting, and said he will also address these questions at the Board meeting on September 9. He then stated that this is Mr. Beckmann's last committee meeting, since he will be retiring at the end of the October. He referred to Mr. Beckmann's years of service to the University, his work ethic, and his many contributions, and he thanked him for his hard work over the past 25 years. Mr. McMillan also thanked Mr. Beckmann, and Mr. Beckmann expressed appreciation for their comments.

OLD BUSINESS

There was no business presented under this aegis.

NEW BUSINESS

Mr. McMillan announced that the next meeting of this committee is scheduled for Monday, November 21, 2011, at 1:00 p.m.

MEETING ADJOURNED

Mr. McMillan requested a motion to adjourn the meeting. On motion of Ms. Strobel, seconded by Mr. Oliver, the meeting adjourned at 3:35 p.m.

Respectfully submitted,



Michele M. Thompson

Clerk

Edward L. McMillan

Chair

Eileen B. Cable

Assistant Clerk

AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE
STAFF AND PUBLIC ATTENDANCE, MEETING OF AUGUST 31, 2011

Urbana Campus Site

Mike Bass, Senior Associate Vice President for Capital Programs and Real Estate Services
Doug Beckmann, Senior Associate Vice President for Business and Finance
Janier Koss, Staff, Board of Trustees Office
Jo Menacher, Associate Director, Planning and Budgeting
Janet Milbrandt, Associate Director of Purchasing, Urbana-Champaign Campus
Rosey Murton, Director, University Sourcing
Peter Newman, Assistant Vice President, Treasury Operations
Jill Odom, Administrative Assistant, Office of the Vice President/Chief Financial Officer and Comptroller
Menah Pratt-Clarke, Associate Chancellor, Urbana-Champaign Campus
Maxine Sandretto, Assistant Vice President for Business and Finance, Urbana-Champaign Campus
Joseph Vitosky, Assistant Vice President, Capital Programs and Real Estate Services
Paul Wood, *The News-Gazette*
Julie Zemaitis, Executive Director of University Audits

Chicago Campus Site

Mark Donovan, Vice Chancellor for Administrative Services, Chicago Campus
Frank Goldberg, Vice Provost for Resource Planning and Management, Chicago Campus
Heather Haberaecker, Executive Assistant Vice President for Business and Finance, Chicago Campus
Randy Kangas, Associate Vice President for Planning and Budgeting
Lon Kaufman, Vice Chancellor for Academic Affairs and Provost, Chicago Campus
Omar Aguilar, Principal, Deloitte Consulting LLP
Howard Engle, Partner, Deloitte Consulting LLP
Ken Porrello, Principal, Deloitte Consulting LLP

Springfield Campus Site

John Tienken, Student Trustee