

JUL 11 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

May 31, 2011

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Tuesday, May 31, 2011, beginning at 1:00 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 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. Mr. Charles L. Olivier¹, student trustee from the Springfield campus, was present.

Also present were President Michael J. Hogan; Dr. Mrinalini C. Rao, vice president for academic affairs; Mr. Walter K. Knorr, vice president/chief financial officer and comptroller; Dr. Avijit Ghosh, special assistant to the president; Mr. Thomas P. Hardy, executive director of University relations; Mr. Thomas R. Bearrows, University counsel; 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.

¹ Charles L. Olivier arrived at 1:30 p.m.

Mr. McMillan welcomed committee members and others to the meeting and stated that the first item on the agenda was to approve the minutes from the meeting held on March 14, 2011. On motion of Mr. Montgomery, and seconded by Mr. Oliver, the minutes were approved unanimously.

REVIEW RECOMMEND BOARD ITEMS FOR THE MEETING OF THE BOARD

OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS ON JUNE 9, 2011

Auxiliary Facilities System Revenue Bonds, Series 2011A and Series 2011B

Mr. McMillan asked Mr. Robert Plankenhorn, director of capital financing, to present information (materials on file with the clerk) about the recommended Board item to "Approve Issuance of Auxiliary Facilities System Revenue Bonds, Series 2011A and 2011B." Mr. Plankenhorn provided an overview of the Stanley O. Ikenberry Commons project at Urbana and stated that the bonds will be used to finance construction of Residence Hall Number Two and the Forbes Hall demolition at Urbana. He reported that the amount of the Series 2011A revenue bonds, which are tax exempt, total \$85.4 million, and Series 2011B, which are taxable, equal \$10.8 million. He also presented the dates for the point of sale, pricing, and delivery, and discussed how the bonds will be paid and secured. He stated that the University's estimated credit ratings are Aa2 and AA-, and he listed the financing team that will assist in the issuance of these bonds. Committee members discussed the presentation, and Mr. Plankenhorn reported that the issuance of the bonds is not to exceed \$110.0 million to fund the project. He told committee members that he does not anticipate a downgrade in the University's credit rating, and Mr. Knorr stated that he hopes the "negative outlook" on the University's credit rating will be removed. He said he will have the University's latest credit rating before the Board meeting on June 9, 2011,

and he also told committee members that the majority of the underwriters used in the issuance of these bonds are minority firms.

Preliminary Operating Budget for Fiscal Year 2012

Mr. McMillan then asked Mr. Knorr to report on the Preliminary Operating Budget for Fiscal Year 2012, which he stated is a continuation of the appropriation from the previous year. Mr. Knorr explained that the actions of the State will conclude after the last Board meeting of this fiscal year, and said that Board approval is needed to enable the University to continue to pay its bills. He said this does not indicate a reduction in efforts to reduce costs, and emphasized that this is a request to approve a preliminary budget to allow the University to continue operations. He said the fiscal year 2011 budget was used as the preliminary operating budget for fiscal year 2012, and stated that a formal budget will be presented at the Board meeting in September. Mr. McMillan said that additional details can be provided if needed.

Adjustment to Self-Insurance Plan – Offsite Medical Malpractice Limits

Mr. McMillan then asked Dr. Peter Newman, assistant vice president for treasury operations, to provide information about the proposed recommendation to lower the limits for off-site medical malpractice insurance (materials on file with the clerk). Dr. Newman referred to a presentation he made to this committee on this topic in March, and said that the self-insurance plan document has been revised, is now ready to be recommended to the Board, and will be on the agenda for the meeting on June 9, 2011. He reviewed the recommend changes and stated that this revision would provide coverage of \$1.0 million per claim and a \$3.0 million annual aggregate for off-site clinical activity. He said that if approved, these changes would be effective as of June 10, 2011.

Dr. Newman discussed the presentation with committee members, who inquired about the financial implications of this change. He stated that this will result in an actuarial credit, which will eventually lead to savings for the University. Mr. Knorr added that a more detailed presentation on these proposed changes was made to this committee and to the Hospital Committee in March 2011.

Purchase Recommendations

Next, Mr. McMillan asked Dr. Heather Haberaecker, executive assistant vice president for business and finance, to review the purchase recommendations (materials on file with the clerk) that will be on the agenda at the Board meeting on June 9, 2011. Dr. Haberaecker referred to the magnitude of these purchase recommendations, and said this is the largest dollar amount for the year, due partially to the timing of contract renewals and the purchase of supplies and services. She highlighted three large purchase recommendations, including the purchase of software licenses and maintenance support for an electronic medical record application that is used at the University of Illinois Medical Center. She said this purchase includes the remaining modules needed to complete the installation of the electronic medical record application, and will also be needed to meet medical records standards mandated by recent healthcare reform.

Dr. Haberaecker also discussed a recommended sole source purchase of equipment and furnishings for patient treatment stations for the college of dentistry at Chicago. She explained that this is a sole source purchase and that the donor, the Guy D. and Rebecca E. Brunetti Foundation, specified the use of a particular vendor. She explained that this sole source purchase is acceptable according to the Illinois Procurement Code because the donor is providing funding for at least 50 percent of the cost of the purchase, and said this will enable the use of state of the art equipment at the college of dentistry.

Next, Dr. Haberaecker provided information about the recommended purchase of consulting services for Administrative Information Technology Systems (AITS), and said this would allow AITS to choose from 13 vendors to provide consulting services as needed in a variety of areas. She described the benefits of making this type of purchase before these services are needed, and said the use of these services cannot exceed \$25.0 million over a three year period.

Dr. Haberaecker discussed the remaining recommended purchases, in addition to those listed above, with committee members. She provided the rationale for other sole source purchases, and she also provided additional information about the donor specified vendor identified for the purchase for the college of dentistry.

Contract for Medical Infrastructure Modernization and Renovation, Chicago

Next, Mr. McMillan 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 at the Board meeting on June 9, 2011 (materials on file with the clerk). Mr. Bass referred to the Board's approval of the \$40.0 million infrastructure and remodeling project for the University of Illinois Medical Center at Chicago in January 2010, and provided information about a construction contract for infrastructure replacement and renovations for the Medical Center. He stated that Huen Electric, Inc. has been selected as the vendor for upgrades to the electrical system, and said that while the goal for MAFBE (Minority and Female Business Enterprise) participation for construction projects at Chicago is 22 percent, this vendor indicated a MAFBE participation rate of 21.06 percent. He reported that this vendor satisfied the requirement that a good faith effort was made to utilize MAFBE firms.

Lease of Space for Cancer Research, Urbana

Mr. Bass also provided information about the item requesting authorization to lease space at 509 West University Avenue in Urbana, which he said is a research space to be used by the University in conjunction with a research affiliation agreement between the University and Carle Foundation Hospital of Urbana. He referred to the cancer research facility that was built on Carle Foundation Hospital grounds through a donation by the Mills family, and stated that the Mills family donation has allowed the University to occupy the research space rent free. He said that the University is applying for grants to pay for future gradual rent increases, and stated that if grant funding cannot be secured, the University will be able to terminate the lease without penalty.

University Farmland Exchange, Urbana

Mr. Bass then discussed the item requesting authorization to execute an agreement with the University of Illinois Foundation to transfer the University's 200 acre Manteno Farm for like-valued Foundation-owned farmland properties, and he referred to maps (materials on file with the clerk) that were shared at the meeting to show the locations of each. He stated that this exchange is for like-valued land and said this is a good fit for the University, noting that it will be more efficient for students and faculty to do research on acreage that is in close proximity to the Urbana campus. Committee members discussed the farmland exchange, and Mr. Bass confirmed that this is an exchange of like-valued land, rather than an equal amount of land.

Expansion of Research Park Boundary, Urbana

Next, Mr. Bass provided an overview of the item requesting approval to designate expansion of the Research Park at the University of Illinois, and stated that this designation would complete

the research park master plan. This item was briefly discussed by committee members, and Mr. Bass clarified that this is a designation only and not an acquisition of land.

Proposed Amendments to *The General Rules*
Concerning University Organization and Procedure

Mr. McMillan then asked Dr. Avijit Ghosh, special assistant to the president, to discuss the proposed amendments to *The General Rules Concerning University Organization and Procedure*. Dr. Ghosh stated that the proposed amendments would modernize processes for approving contracts, and he told committee members that these changes have been widely discussed. He said that the University Senates Conference (USC) provided some suggestions for changes to the language of the proposed amendments, which he said have been incorporated into the current documents, and stated that the USC, the Administrative Restructuring and Review Steering Committee, and the Governance, Personnel, and Ethics Committee have endorsed the proposed amendments. He provided a brief overview of the proposed changes, and emphasized that this is not an indication of decreased vigilance. Mr. McMillan confirmed with Mr. Bearrows and Dr. Thompson that they have no concerns regarding these amendments, and Ms. Strobel confirmed endorsement by the Governance, Personnel, and Ethics Committee.

Fiscal Year 2012 Agreements for the University of Illinois
 Alumni Association and the University of Illinois Foundation

Mr. McMillan then asked Mr. Doug Beckmann, senior associate vice president for business and finance, to discuss the fiscal year 2012 agreements for the University of Illinois Alumni Association and the University of Illinois Foundation. Mr. Beckmann stated that this item authorizes the University to renew contracts with the University of Illinois Alumni Association

and the University of Illinois Foundation, and said that the same funding language was used as last year. He said the University of Illinois Alumni Association budget will likely be between \$9.0 and \$10.0 million and the University of Illinois Foundation budget is estimated to be in the range of \$23.0 million, with the University providing 25 to 30 percent of each budget in direct support. He drew attention to language in the document stating that this is contingent on State funding and said these figures can be adjusted if necessary, stating that this item establishes a not to exceed dollar amount. Discussion followed, and Mr. Beckmann responded to questions regarding the University's arrangement with the University of Illinois Alumni Association and the University of Illinois Foundation, stating that there is much variation in the way this is structured at many Big Ten universities.

This concluded the review of recommended Board items for the meeting on June 9, 2011, and there was no opposition to any of these recommendations being advanced to the Board as a whole.

REPORTS TO THE COMMITTEE

Federal Compliance Audit Report for Fiscal Year 2010

Mr. McMillan asked Ms. Maxine Sandretto, assistant vice president for business and finance, to provide a report on the fiscal year 2010 State and Federal compliance audit summary (materials on file with the clerk). Ms. Sandretto stated that the Illinois Office of the Auditor General contracts with an independent firm to conduct annual audits of the University, and she provided an overview of the outcomes of the compliance audit for State Statutes and the Federal compliance audit. She presented a chart that showed that there were 43 State and Federal findings, 29 of which were repeat findings. She said that repeat findings were primarily caused by a delay in the issuance of the fiscal year 2009 audit and complexities surrounding the federal

resolution process. She provided additional information about the complications of this process and working with various agencies outside the University, and said this has been a challenge for both federal agencies and the University. She assured the committee of the constant work that is underway to resolve these findings, and said it has taken longer than expected. She provided a summary of classifications of the Federal findings, stating that those of greatest concern are in the material noncompliance and material weakness category and the scope limitation category, and noted that six of the most significant are repeat findings. She said in these instances, corrective action is underway, and responses from the Federal agencies are forthcoming. She emphasized that there is no risk of having to pay back funds on these most significant findings. She also provided information about the scope limitation finding, and said that work toward resolution with the Federal agency is ongoing. She then provided information about three Government Auditing Standards (GAS) findings and nine State compliance findings, and emphasized the impact of the delay in the issuance of the fiscal year 2009 audit on the University's ability to respond prior to the fiscal year 2010 audit. She concluded her presentation by stating that the University takes all audit findings very seriously, and stated that additional resources have been devoted to work toward resolving all findings.

Committee members discussed the presentation, and Ms. Sandretto provided additional information about findings that were not accepted by the University. She also responded to questions regarding the affect of material findings, and said that while the University is not currently at risk of these affecting its funding from sponsored awards, it could become a serious issue if the findings continue to repeat in future years. Mr. Beckmann added that some of the findings are of great interest to many in higher education, and he provided examples of certain

processes that have been used related to grant funding for many years without question and are now included in these findings.

Internal Audit Report for Quarter Ended March 31, 2011

Ms. Julie A. Zemaitis, executive director of University Audits, presented a summary of audit activity for the third quarter, which ended on March 31, 2011, along with selected updates through May 15, 2011 (materials on file with the clerk). She provided an overview of the fiscal year 2011 revised six-month audit plan completion status through the third quarter, noting that many audits that have been initiated and are near report status, and provided a chart summarizing the 11 reports that were issued in the third quarter. She then provided data showing peer benchmarking in a variety of areas, which she stated was based on a survey from the Institute of Internal Auditors in 2008. These areas included: the number of identified audit recommendations; the percent of recommendations made that were implemented; the percentage of findings that received follow-up; the percentage of testing of the implementation of corrective action; and the percentage of total recommendations that are major findings. She referred to a change in the verbiage used to identify high, moderate, and low risk findings, and stated that instead, the terms high, moderate, and low priority will be used going forward.

Ms. Zemaitis then showed an analysis of the implementation of audit recommendations from fiscal year 2009 through the third quarter of 2011, and showed that there are 477 open audit recommendations. She said that 181 were implemented through the third quarter, and referred to recommendations resulting from college-level information technology audits and a utilities audit that was conducted several years ago. She said there are common issues related to information technology among the colleges, and said it is possible some of these may be addressed globally. Ms. Strobel asked if ongoing attempts to improve efficiency in information technology could

result in fewer findings in this area, and Ms. Zemaitis said some findings are related to streamlining and efficiency opportunities. President Hogan stated that Dr. Michael H. Hites, executive chief information officer, met with Ms. Zemaitis to discuss these findings, and Dr. Hites referred to an upcoming meeting with representatives from some colleges to attempt to address common issues.

Ms. Zemaitis then presented a table reflecting the aging of outstanding recommendations by original implementation date, and said the majority of recommendations are not yet due to be implemented. She said that approximately 80 percent of recommendations are implemented after one or two follow-ups, and noted that peer benchmarking data is not available in this area. Next, she showed the aging of audit recommendations with original implementation dates of fiscal year 2010 and prior as of May 15, 2011, and provided a chart that showed six high priority audit recommendations with implementation dates of fiscal year 2010 or prior, excluding utilities, as of May 15, 2011. She then presented audit report findings by priority level and by campus from January 1, 2011 through March 31, 2011, and she showed percentages of high and moderate priority findings in selected areas from January 2, 2011 through March 31, 2011.

Committee members discussed the presentation, and President Hogan commended Ms. Zemaitis on providing a report that presents a clear picture of internal audit activity. Many expressed appreciation for the use of benchmarking data, and Ms. Zemaitis briefly commented on the relationship between the office of University audits and external audit activities.

Internal Audit Charter Amendments

Ms. Zemaitis referred to proposed changes to the internal audit charter that require the approval of the Audit, Budget, Finance, and Facilities Committee. She said a draft of these changes had been provided to committee members in advance of this meeting (materials on file with the

clerk), and she provided additional information about these amendments. On motion of Ms. Strobel, seconded by Mr. Montgomery, the changes to the internal audit charter were approved.

Directors and Officers Insurance

Next, Mr. McMillan asked Dr. Newman to provide a report on directors and officers insurance. Dr. Newman provided an overview of the organizational responsibility of University risk control and self-insurance activities, and he described the University's Board legal liability program of insurance for claims that may be brought against Board members while acting in the scope of University duties. He said that \$20.0 million of protection is provided to cover judgments, settlements, and legal defense costs, with \$15.0 million procured commercially and \$5.0 million self-insured and set aside in a trust. He reviewed areas in which trustees may be sued, including employment and civil rights related claims, and described areas that are excluded, noting that claims related to employment practices are often contentious. Dr. Newman then provided information regarding the self-insurance trust, which he said is reviewed annually by an actuarial firm. He stated that the commercial carrier is Illinois National, and he told the committee that coverage levels are adjusted to keep pace with market events.

Brief discussion followed, and Mr. Beckmann and Dr. Newman agreed to conduct an analysis to determine if the current level of coverage is appropriate.

Utilities Budget and Fund Balance Report

Next, Mr. Beckmann referred to a chart (materials on file with the clerk) that was sent to committee members depicting the utility budget versus actual expenditures from fiscal year 2007 through 2011, and said there was a five-year period of utility deficits at the University that ended in 2009. He discussed payment toward the deficit and efforts to maintain control of utility costs,

and said he does not anticipate any issues in this area. Committee members briefly discussed the utility deficit and the outstanding internal audit recommendations related to utilities.

Legislative Update

Mr. McMillan then asked Mr. Knorr to provide a legislative update. Mr. Knorr first discussed the 1.15 percent decrease in the State appropriation for fiscal year 2012, noting that the unpaid appropriation from fiscal year 2011 continues to be cause for concern. President Hogan commented that a 1.15 percent reduction is positive in the current environment. Mr. Knorr then mentioned proposed pension changes and referred to materials provided by the Institute of Government and Public Affairs at the University (materials on file with the clerk), and said that voting on bills related to pensions has been deferred for this session. He stated that there was also no progress on the legislation related to the ability to determine academic professional positions at the University, and he provided a brief update on the availability of Health Alliance as an insurance provider for State employees. He told committee members that Senate Bill 175, which relates to health costs for retirees, was pulled, and said that proposed amendments to Senate Bill 151 will not be voted on during this session.

Committee members briefly discussed these issues, and with no further questions or comments, Mr. McMillan announced that the next meeting is scheduled for July 11, 2011, at 1:00 p.m.

MEETING ADJOURNED

Mr. McMillan then requested a motion to adjourn the meeting. On motion of Mr. Olivier, seconded by Montgomery, the meeting adjourned at 2:50 p.m.

Respectfully submitted,

Michele M. Thompson
Clerk

Edward L. McMillan
Chair

Eileen B. Cable
Assistant Clerk