

JAN - 9 2012

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

November 21, 2011

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, November 21, 2011, beginning at 1:05 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. James D. Montgomery, and Mr. Lawrence Oliver. Ms. Pamela B. Strobel participated via conference call. Ms. Hannah Ehrenberg, student trustee from the Urbana-Champaign campus, Mr. Kenneth M. Thomas, voting student trustee with vote from the Chicago campus, and Mr. John W. Tienken, student trustee from the Springfield campus, were present.

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

and of the University and Dr. Susan M. Kies, secretary-designate of the Board of Trustees and of the University.

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 August 31, 2011. On motion of Mr. Oliver, seconded by Ms. Strobel, the minutes were approved. There were no nay votes.

REPORTS TO THE COMMITTEE

Minority and Female Business Enterprise (MAFBE) Program Update

Mr. McMillan asked Dr. Heather Haberaecker, executive assistant vice president for business and finance to provide an update on MAFBE and supplier diversity efforts. Dr. Haberaecker indicated she was presenting this report (materials on file with the clerk) in response to the September 23, 2010, Board Resolution requesting an annual report on MAFBE and supplier diversity efforts. She discussed MAFBE expenditures for fiscal year 2007 through fiscal year 2011, MAFBE and diversity expenditures compared to University addressable spend for fiscal year 2009 through fiscal year 2011, and thirteen outreach activities for fiscal year 2011. Dr. Haberaecker referred to additional recommendations and strategies that can be implemented by the University to enhance the participation by minorities, females, and persons with disabilities identified by the Bronner Group, and she introduced Ms. Gila Bronner, President and Chief Executive Officer of the Bronner Group, to present phase two of a report on that firm's assessment of the University's supplier diversity program. Ms. Bronner introduced her

colleague, Ms. Ashlee Piper, Director of Strategic Services, and then discussed five findings and recommendations (materials on file with the clerk). She reported that the first recommendation is governance. She recommended the University pursue changes to the State procurement laws regarding supplier diversity. Scoring consideration for bids/proposals from diverse businesses and acceptance of alternative certifications beyond MAFBE for veteran-owned and other diverse businesses was suggested. The second recommendation was to rebrand the University's program from the more narrowly-defined MAFBE program to a more broadly-defined supplier diversity program. She also presented a proposed new logo for the program. She explained that this would communicate the goals and objectives of a new program linked to the program's desired outcome of attracting more diverse suppliers. She suggested the Board of Trustees adopt new supplier diversity mission and vision statements and refocus on accountability for programs. The Bronner Groups' third recommendation concerned staffing. They recommended an increase in staff to unify reporting and expand the current program to boost results. Ms. Bronner recommended the University dedicate seven full-time employees and one part-time employee to supplier diversity-related activities, including outreach and technology; align the supplier diversity initiative under a single reporting relationship; and invest in technology to track sub-contractors. The fourth recommendation concerned outreach. Ms. Bronner recommended University outreach activities focused more closely on actionable feedback from businesses who participate in the diversity program. She said this could be accomplished by creating a Supplier Diversity Advocacy Council and recruiting vendor representatives; building specific outreach plans tailored to each individual campus market; and hosting unique events such as matchmaking fairs. The final recommendation pertained to sourcing. Ms. Bronner recommended the University maintain and access a current listing of potential diverse suppliers and coordinate

with peers. She indicated that responsibility should be assigned to continually update and circulate a new diverse vendor's matrix; and that a mechanism for vendors to self-update profiles for the University should be created; and innovation incubation concepts should be explored. Ms. Bronner indicated the University is on the path to national leadership in supplier diversity and recommended the Board discuss recommendations and agree upon changes to be implemented. She concluded by reporting that phase three of this project is implementation and includes approving recommendations and determining implementation methods; preparing a new University supplier diversity policy statement; establishing clear roles and responsibilities; and developing a progress reporting and performance system.

Committee members discussed the next steps. Dr. Haberaecker indicated that having the Board adopt a supplier diversity statement is suggested. Mr. McMillan asked for clarification on the number of additional employees needed for implementation of the recommendations. Mr. Michael Bass, senior associate vice president for business and finance and deputy comptroller, responded that two employees are currently in this area on staff with budget to hire three additional employees.

Investment Management Services for Endowment and Operating Funds

Mr. McMillan then asked Mr. Dean Hagan, director of University investments, to report on the process and recommendations to hire additional fixed income managers (material on file with the clerk). After his presentation, Mr. Hagan introduced the consultants from Hewitt EnnisKnupp, Mr. Brady O'Connell, principal, and Ms. Angela Cantillon, senior consultant. Ms. Cantillon discussed the comprehensive asset allocation review of the University's endowment investment program during the fall of 2010. The amendments to the investment policy for the endowment

and operating funds, approved by the Board on January 20, 2011, required the hiring of additional fixed income managers to meet the University's investment mandates. Responses to a request for proposal covering three fixed income investment mandates were reviewed, and five fixed income managers are recommended to be hired: Galliard Capital Management, Income Research and Management, JP Morgan Asset Management, Neuberger Berman, and Wells Capital. Mr. Hagan also provided a report for information on the self-insurance programs for medical professional and board legal liability. In 2009 the University invested an initial \$10 million to establish the quasi-endowment for self-insurance assets. The consultants and staff noted that due to near historic lows of current investment yields in the U.S. government bond market, and in order to further improve the return prospects for self-insurance trust assets, a target of 20 percent to the quasi-endowment allocation is recommended. Committee members had questions concerning the process used for the selection of the fixed income managers. Mr. Hagan discussed the detailed process followed with Hewitt EnnisKnupp to select the five firms and indicated managers are constantly evaluated by Hewitt EnnisKnupp and University staff is alerted immediately of any adverse information.

Review of Tuition and Financial Aid

Mr. Walter Knorr, vice president/chief financial officer and comptroller, discussed the background for the fiscal year 2013 tuition recommendation, the policies and guidelines for tuition increases, and how the tuition decision affects financial aid (materials on file with the clerk). He indicated the level of direct State support remains uncertain. He stated that the State still owes the University \$137.0 million from the fiscal year 2011 appropriation and \$217.0 million for the fiscal year 2012 appropriation. Mr. Knorr indicated half of the University's undergraduates receive some form of need or merit based financial assistance. Further, he said

that in the past 10 years, the institutional need-based supplemental aid budget has increased from \$13.9 million to over \$54.0 million. He said that a tuition increase for fiscal year 2013 will be presented to the Board for approval at the January 19, 2012 meeting. He indicated that it will be recommended that a tuition increase be tied to inflation and a nationally recognized price-cost index. Mr. Knorr reviewed the Guiding Principles for Financial Aid and the Supplemental Financial Aid Policy which the Board adopted on November 13, 2008. Committee members discussed the importance of the guaranteed tuition program and the incentive for undergraduates to graduate in four years. Mr. McMillan concluded the discussion by noting that with the uncertainty of State funding and the strain on family budgets, the University must deliver an efficient and high quality education.

Internal Audit Activity for the Quarter Ended September 30, 2011

Ms. Julie Zemaitis, executive director of University audits, presented a summary of internal audit activity for the first quarter that ended September 30, 2011 (materials on file with the clerk). She provided information regarding the fiscal year 2012 audit plan completion status and the eleven reports that have been issued this quarter. Ms. Zemaitis then discussed this quarter's audit report findings by risk and priority rating and presented an analysis of the implementation of audit recommendations from fiscal year 2010 through the first quarter of fiscal year 2012, which showed an adjusted ending balance of 185 open audit recommendations. Next, Ms. Zemaitis discussed the risk and priority rating for all open audit recommendations for the first quarter. She then provided a table reflecting the aging of outstanding recommendations by original implementation date and audit recommendations with original implementations dates of fiscal year 2011 and prior. She indicated that historically, approximately 80 percent of recommendations are implemented after one to two follow-ups. She reported that the average

length of time from report issuance to audit recommendation implementation is 14 months. In response to Mr. Oliver's question at the August 31, 2011, meeting regarding fraud risk, Ms. Zemaitis reported on three required internal auditing standards University Audits follows. There were no additional questions or comments regarding this presentation.

REVIEW OF RECOMMENDED BOARD ITEMS FOR THE MEETING OF THE BOARD OF
TRUSTEES OF THE UNIVERISTY OF ILLINOIS ON DECEMBER 2, 2011

Purchase Recommendations

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 December 2, 2011 (materials on file with the clerk). Dr. Haberaecker discussed the purchase of three travel agencies' services for international group travel through the study abroad office and various departments at the Urbana-Champaign campus. Dr. Haberaecker said that these contracts are also available to the Chicago and Springfield campuses. She then discussed the purchase of two da Vinci Robotic Surgical Systems for use at the University of Illinois Hospital and as a teaching instrument for the College of Medicine. The final purchase recommendation was a subscription to forty online electronic journals available through the American Chemical Society that was negotiated through an agreement with the Consortium of Academic and Research Libraries in Illinois agreement.

Capital Items and Real Estate

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

are planned for presentation on the agenda for the Board meeting on December 2, 2011 (materials on file with the clerk). Mr. Bass stated that an energy audit was performed on the Oak Street Chiller Plant, Urbana to identify energy conservation measures to be implemented through energy savings which will fund or repay design and construction costs in accordance with the State Public University Energy Conservation Act. He provided background information regarding the item requesting approval for an energy conservation project and a professional and construction services award for Energy Performance Contracting for the Oak Street Chiller Plant at Urbana. Mr. Bass then presented an item requesting approval for the Natural History Building Renovation project with a budget of \$70 million and he stated in order for the project to proceed, the Professional Services Agreement for architect/engineer services that had been approved previously must be amended to complete the remainder of the project phases through post construction. Mr. Bass also provided information on the request to employ a professional services consultant to perform the programming and schematic design phases for the Assembly Hall Renovation and Addition at Urbana. He then presented an item requesting approval to award a contract for the redevelopment plan phase 2A project for the Main Library at Urbana. He said that the \$5.0 million proposed Phase 2A project includes \$3.1 million for replacement of windows with energy efficient aluminum windows, structural reinforcement of existing brick masonry chimneys, repointing of the exterior brick and stone masonry envelope to reduce moisture infiltration, cleaning of discolored and stained stonework, and improvements to exterior lighting. He said that MAFBE contractors are involved in this project. Mr. Bass then discussed the request to employ a professional services consultant to complete a comprehensive utility master plan to consider factors that may impact future energy utilities operations for utilities production and distribution at Urbana. He also discussed the request to employ an

architect/engineer for the implementation of the utilities master plan at Chicago. Next, Mr. Bass discussed the recommended employment of an architect/engineer for the College of Dentistry, Chicago, to provide modernization and code compliance. He said this was approved as part of the fiscal year 2011 State capital budget request. He added that the professional fees for the firm employed will be negotiated by the Capital Development Board. Mr. Bass then presented an item to increase the \$12.0 million project budget for the Mile Square Health Center at Chicago to \$29,945,850, an increase of \$17,945,850. He stated that the additional scope of work will include the addition of three floors of shell space, minimal lighting, and sprinklers to meet code requirements, and said the floors of shell space will be built-out as tenants are identified. Mr. Bass then provided information regarding the recommended item to name various spaces within Douglas Hall at Chicago, in recognition of donors. Next, the request to rename the Water Survey Research Center at Urbana was discussed. After comments from the committee, the item was withdrawn for further study. Mr. Bass then discussed the transfer of property title and lease-back of 704 North Schrader, Havana, Illinois to the Illinois Department of Natural Resources at Urbana. He said the premises are utilized by the Natural History Survey as a field station that is commonly known as the Illinois River Biological Station. He said that no University funds were used to purchase the property and the title transfer will correct an error made by the U.S. Fish and Wildlife Service which originally stated that the University was to take title to the property. He reported that Illinois Central Management Services has no objection to this transfer which satisfies an audit by the Office of Auditor General and puts the University in compliance with federal guidelines. Mr. Bass discussed the next request to clarify compliance expectations of Prairieland Energy, Inc., revise the reporting schedule, and provide a designation of the president of Prairieland Energy, Inc. He said that the intent is for the Board of Trustees to direct

PrairieLand Energy, Inc., to comply in all material respects with the Energy Cost Management Policy and the Derivatives Use Policy; approve a revision to the required energy reporting schedule to three times a year; and to designate Michael B. Bass as the president of PrairieLand Energy, Inc.

Mr. Robert Plankenhorn, director of capital financing, discussed the request to revise the policy for the issuance of University debt (materials on file with the clerk). He stated that this policy governs debt issuance, debt refunding and debt portfolio management activities. He explained that the revisions are necessary to bring the University into compliance with the new State law, the State University Certificates of Participation Act, and certain provisions of the Public University Energy Conservation Act. Mr. Plankenhorn next presented the request to delegate authority to the vice president/CFO and comptroller to refund outstanding auxiliary facilities system revenue bonds (materials on file with the clerk). He indicated that this action will allow the University to issue one or more series of estimated \$55.4 million Auxiliary Facilities System Refunding Revenue Bonds to capture the estimated \$2.4 million total net debt service savings that are available due to current lower interest rates.

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

State Legislative Report

Mr. McMillan then asked Mr. Knorr to provide updates regarding State finances and legislation related to the committee's work. Mr. Knorr briefly discussed the cash flow to the University from the State and legislation which would affect gaming and University pensions.

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, January 9, 2012, at 1:00 p.m.

MEETING ADJOURNED


Mr. McMillan requested a motion to adjourn the meeting. On motion of Mr. Montgomery, seconded by Mr. Oliver with no nay votes, the meeting adjourned at 3:23 p.m.

Respectfully submitted,


Michele M. Thompson
Clerk


Edward L. McMillan
Chair

Eileen B. Cable
Assisting Clerk


Janier Koss
Assisting

AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE MEETING
STAFF AND PUBLIC ATTENDANCE, MEETING OF NOVEMBER 21, 2011

Urbana Campus Site

Jeff Bassert, WILL

Jack Dempsey, executive director of facilities and services, Urbana-Champaign Campus

Sue Foster, WICD

Dean Hagan, director of University investments

Randy Kangas, associate vice president for planning and budgeting

Janier Koss, staff, Board of Trustees

Jo Menacher, associate director, planning and budgeting

Janet Milbrandt, interim director, purchasing, business and financial services, Urbana-Champaign Campus

Peter Newman, senior assistant vice president for treasury operations, business and financial services

Kevin Noland, senior director, treasury operations, business and financial services

Jill Odom, administrative assistant, office of the vice president/chief financial officer and comptroller

Pat Patterson, controller and senior assistant vice president, business and financial services

Bob Plankenhorn, director of capital financing, business and financial services

Menah Pratt-Clarke, associate chancellor, Urbana-Champaign Campus

Jennifer Rexroad, assistant director of operations, purchasing, business and financial services Urbana-Champaign Campus,

Scott Rice, senior associate University counsel

Lisa Troyer, chief of staff to the president

Joseph Vitosky, assistant vice president, capital programs and real estate services

Julie Zemaitis, executive director of University audits

Chicago Campus Site

Mike Bass, senior associate vice president for business and finance and deputy comptroller

Gila Bonner, president and chief executive officer, Bronner Group Consultants

Angela Cantillon, senior consultant, Hewitt EnnisKnupp Consultants

Colleen DeHart, visiting information and media specialist, University relations

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

Brady O'Connell, principal, Hewitt EnnisKnupp Consultants

Ashlee Piper, director of strategic services, Bronner Group Consultants