

APPROVED BY THE
COMMITTEE

JUL 09 2012

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SECRETARY OF THE BOARD

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

May 21, 2012

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, May 21, 2012, 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 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, Mr. Lawrence Oliver, and Ms. Pamela B. Strobel. Mr. John W. Tienken, nonvoting student trustee from the Springfield campus, was present. Mr. Lester H. McKeever, Jr.¹, treasurer and President Designate Robert A. Easter were also present.

The following University officers were in attendance: Dr. Christophe Pierre, vice president for academic affairs; Dr. Lawrence B. Schook, vice president for research; Mr. Thomas P. Hardy, executive director for University relations; Dr. Avijit Ghosh, special assistant to the president; Mr. Thomas R. Bearrows, University counsel; and Dr. Susan M. Kies, secretary 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 asked if there were any comments or corrections to the minutes from the meeting that was held on March 5, 2012. There were

¹ Mr. McKeever arrived at 1:05p.m.

none. On motion of Ms. Strobel, seconded by Mr. Montgomery, the minutes were approved. There were no nay votes.

REPORTS AND PRESENTATIONS TO THE COMMITTEE

Internal Audit Report, Quarter Ended March 31, 2012

Mr. McMillan asked Ms. Julie Zemaitis, executive director for University audits, to present her report regarding internal audits for quarter ending March 31, 2012 (materials on file with the clerk). Ms. Zemaitis outlined the work of the office and the status of audit plans, and noted that sixteen reports were issued during this period. The audit report findings by campus were discussed, including those related to information technology and grant compliance audits. Mr. McMillan said that he was pleased with the rate at which issues are being addressed University-wide. Ms. Zemaitis commented that the vision of her office is to be an innovative driver of positive change, and Mr. McMillan thanked Ms. Zemaitis for her report.

Enterprise-Wide Risk Management

Next, Mr. McMillan asked Mr. Daniel Mortland, assistant director, enterprise risk management, to provide a presentation on enterprise-wide risk management (materials on file with the clerk). Mr. Mortland explained the process for reviewing issues related to risk, including discovery, evaluation, communication, and response. He then described the components of risk scores, gave examples of risk within the University, and explained how risk response strategies are developed. He also provided an overview of next steps in this assessment. Mr. Montgomery inquired about the risks identified as medical facility constraints and capital programs and construction. Mr. Mortland provided additional information about these risks and explained that they are already receiving adequate attention by the risk owner or University. Additional discussion followed regarding the function of an executive steering

committee and a working committee. Ms. Strobel inquired about updates to ensure that risks are being addressed, and Mr. McMillan commented that the level of frequency to receive these reports has not yet been established.

Compliance Audit Report, Fiscal Year 2011
Financial Audit Report, Fiscal Year 2011

Mr. McMillan then introduced Ms. Maxine Sandretto, assistant vice president for business and finance, and Mr. Patrick Patterson, controller and senior assistant vice president for business and finance, to present the fiscal year 2011 compliance audit report and financial audit report (materials on file with the clerk). Mr. Patterson discussed the financial audit which was conducted by the firm KPMG on behalf of the Illinois Office of the Auditor General. He commented that the financial audit was a well-coordinated effort by everyone involved and generated three findings, which related to information technology systems access; procurement card procedures; and year-end receivables and payable accrual processes. He then provided some financial statement highlights. Discussion regarding procurement cards followed, and Ms. Sandretto explained that the number of procurement card users was declining and that authorization occurs at the departmental level, noting that compliance is enforced in the procurement card office.

Ms. Sandretto then commented on the State and Federal compliance audit and provided a summary of the audit findings, as well as the classifications of these findings. She described the causes of these findings and discussed the resolution process, noting that these findings have not appeared to impact the University's ability to receive grant funding. Mr. McMillan commented that the material weaknesses as defined by the auditors seem insignificant compared to those that might be identified in the private sector.

REVIEW OF RECOMMENDED BOARD ITEMS FOR THE MEETING OF THE BOARD
OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS ON MAY 31, 2012

Committee members then reviewed the recommended items on the Board's agenda for its meeting on May 31, 2012 that are within the purview of the committee.

Preliminary Operating Budget for Fiscal Year 2013

Mr. McMillan asked Dr. W. Randall Kangas, associate vice president for planning and budgeting, to report on the preliminary operating budget for fiscal year 2013, which he stated is a continuation of the appropriation from the previous year. Dr. Kangas stated 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 this process has been used since 2005, and that a formal budget will be presented at the Board meeting in September. There were no questions or comments regarding this item.

Construction Manager for Stanley O. Ikenberry Commons—Residence Hall No. 3, Urbana
Mr. McMillan asked Mr. Joseph Vitosky, assistant vice president for capital programs, to report on the recommendation to employ a construction manager for Stanley O. Ikenberry Commons—Residence Hall No. 3. Mr. Vitosky presented background information regarding the construction project and discussed the need to employ a construction manager for the preconstruction and construction phases of the project. Further, he explained that this recommendation was in accordance with requirements and provisions of the Illinois Procurement Code, which include competitive bidding procedures. He provided additional related information, and Mr. McMillan asked if there were questions on this item. There were none.

Construction Contracts for Infrastructure Replacement and
Renovations, University of Illinois Medical Center

Mr. Vitosky presented the recommendation to award construction contracts for infrastructure replacement and renovations at the medical center. Mr. Vitosky provided information about this recommendation and explained that bids for the construction work for the second bid package have been solicited and that approval was needed in order for the project to proceed. In response to a question from Ms. Strobel regarding the participation of minority firms, Mr. Vitosky stated that the rate of participation for Division 1. General is 21.31 percent, for Division 3. Heating & Quality Control systems is 20.69 percent and for Division 4. Ventilation is 23.69 percent.

Project Budget Increase for College of Pharmacy Building –
Electrical and Mechanical Upgrade and Renovation, Chicago

Mr. Vitosky presented background information regarding the building infrastructure of the Pharmacy building and the reasons for the requested project budget increase. He described the additional scope of work that is needed to abate substantial asbestos in the ceilings to allow for the removal and replacement of existing ceilings and lights. He said that in addition, new floors and casework will be installed on the third, fourth and fifth floors of the building. Mr. McMillan asked if there were any questions and there were none.

Project for Abbott Power Plant Gas Boiler Replacement, Urbana

Mr. Vitosky presented the information regarding the proposed gas boiler replacement for the Abbott Power Plant and described various aspects of the project. Discussion regarding the use of natural gas versus coal followed, and Ms. Strobel commented on the low cost of natural gas. Dr. Heather Haberaecker, executive assistant vice president for business and finance, commented that less coal is being used at Urbana than has been used in the past. Mr. Vitosky confirmed that this work is needed to continue operating the Abbott Power Plant in the short term.

Project for Chemistry Annex—Addition and Renovation, Urbana

Mr. Vitosky presented information regarding the proposed chemistry annex addition and renovation. He provided some details about the project, and briefly discussed the budget and funding sources. Mr. McMillan asked if there were questions regarding this project, and there were none.

Purchase Recommendations

Next, Mr. McMillan asked Dr. Haberaecker to review the purchase recommendations that will be on the agenda for the meeting of the Board of Trustees on May 31, 2012 (materials on file with the clerk). Dr. Haberaecker provided information regarding each item and referred to the magnitude of these purchase recommendations, stating that the recommended purchases that appear before the Board in May are usually the largest dollar amount for the year, due partially to the timing of contract renewals and the purchase of supplies and services. She also discussed the rationale for three recommended sole source purchases, and she responded to questions from Ms. Strobel regarding the recommended contract for the purchase of coal. Dr. Haberaecker provided clarification of the terms of the contract. Ms. Strobel also inquired about the vendor recommended for the purchase of orthopaedic implant products, and commented on some legal issues concerning this company. Dr. Haberaecker stated that she would obtain more information about this and provide Ms. Strobel with an update. There were no further comments or questions concerning this item.

Fiscal Year 2013 Agreements for the University of Illinois
Alumni Association and the University of Illinois Foundation

Mr. McMillan asked Dr. Kangas to discuss the proposed agreements for the University of Illinois Alumni Association and the University of Illinois Foundation. Dr. Kangas stated that

agreements with the Alumni Association and the Foundation have been in place since 1982, and that the University has designated them as University-related organizations and authorized basic service agreements for certain services. These services are outlined in the Board item (materials on file with the clerk). Dr. Kangas noted that costs have actually fallen 1.15%. There were no further questions or comments about this recommendation.

Student Health Insurance Rates for Urbana, Chicago,
and Springfield Campuses, Fiscal Year 2013

Mr. McMillan asked Dr. Peter Newman, assistant vice president for treasury operations, to report on student health insurance rates. Dr. Newman briefly discussed the impact of the Affordable Care Act on student health insurance. He stated that there will be no change to this fee in fiscal year 2013 for students at Chicago and Urbana, and he said that this rate will decrease by five percent for students at Springfield, with benefits meeting Affordable Care Act requirements at all three campuses. Additional discussion regarding the impact of an upcoming Supreme Court decision related to the Affordable Care Act followed. There was no other discussion regarding this item.

Approve Increase in Campus Transportation Fee, Urbana

Dr. Newman reported on the campus transportation fee at Urbana, and discussed the proposed fees for fiscal year 2013, 2014, and 2015, which he said are based upon a student referendum. Dr. Kangas and Dr. Newman discussed the proposed fee increase, and Dr. Newman added that a student also serves on the board of the Champaign-Urbana Mass Transit District (MTD). There were no additional comments or questions regarding this item.

Chicago Transit Authority U-Pass Contract, Chicago

Dr. Haberaecker reported there would be no increase in the transportation fee for students at Chicago in fiscal year 2013, and she commented on the success of the U-pass program and its popularity among students.

There were no further questions or comments about these recommendations and no opposition to any of these recommendations being advanced to the Board as a whole.

REPORTS AND PRESENTATIONS, CONTINUED

Budget Update

Dr. Kangas provided a brief report on State finances. He reviewed several issues under discussion at the State level, including pension reform, Medicaid funding, General Assembly scholarships, the rehiring of retired employees, and health insurance costs for retirees. President Designate Easter discussed potential pension reform and complimented Dr. Avijit Ghosh, special assistant to the president, for his hard work on behalf of the University in regard to pensions. President Designate Easter also referred to forums that had been provided by the Institute of Government and Public Affairs that focused on the impact of potential pension legislation. He then referred to legislation impacting the use of search firms, the rehiring of retired employees, and a cigarette tax. Brief discussion regarding tuition waivers and its financial impact followed.

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

MOTION FOR EXECUTIVE SESSION

At 2:25 p.m., Mr. McMillan asked for a motion for an executive session to consider a meeting between internal audit and the committee where the discussion involves internal control matters. The motion was made by Mr. Montgomery, seconded by Mr. Oliver, and approved. There were no nay votes.

EXECUTIVE SESSION

EXECUTIVE SESSION ADJOURNED

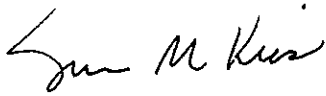
At 2:56 p.m. the executive session was adjourned, and the committee resumed its regular meeting.

REGULAR MEETING RESUMED

MEETING ADJOURNED

Mr. McMillan requested a motion to adjourn the meeting. On motion of Mr. Montgomery, seconded by Mr. Oliver, the meeting adjourned at 2:59 p.m. There were no nay votes.

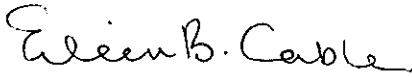
Respectfully submitted,



Susan M. Kies
Clerk



Edward L. McMillan
Chair



Eileen B. Cable
Assistant Clerk

AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE MEETING
STAFF AND PUBLIC ATTENDANCE, MEETING OF JULY 9, 2012

Urbana Campus Site

Randy Kangas, Associate Vice President for Planning and Budgeting, University Administration
Jackie Dippel, KPMG
Jan Dennis, Assistant Director, University Relations
Darrell Hoemann, photographer, News Gazette
Robert Plankenhorn, Director of Capital Financing, OBFS
Menah Pratt-Clarke, Associate Chancellor, Urbana-Champaign campus
Sandra Street, Director of Planning and Budgeting, University Administration
Jo Menacher, Associate Director of Planning and Budgeting, University Administration
Phyllis Wise, Chancellor, Urbana-Champaign campus
Peter Newman, Senior Assistant Vice President of Treasury Operations, OBFS
Dean Hagan, Director of University Investments, OBFS
Julie Wurth, reporter, News Gazette
Mike Bass, senior associate vice president for business and finance and deputy comptroller
Janier Koss, staff, Board of Trustees
Jill Odom, Administrative Assistant, Office of the Vice President/Chief Financial Officer and Comptroller
Pat Patterson, Controller and Senior Assistant Vice President, OBFS
Maxine Sandretto, Assistant Vice President for Business and Finance, Urbana-Champaign campus
Julie Zemaitis, Executive Director of University Audits, University Administration
Avijit Ghosh, Special Assistant to the President, University Administration
Robert Easter, President, University Administration
Susan Kies, Secretary, Board of Trustees
Christophe Pierre, Vice President for Academic Affairs, University Administration
Sue Parker, staff, Board of Trustees
Julia Kuehn, staff, Board of Trustees

Chicago Campus Site

Walter Knorr- Vice President and Chief Financial Officer and Comptroller, University Administration
Heather Haberaecker, Executive Assistant Vice President for Business and Finance, Chicago campus
Tom Bearrows, University Counsel, University Administration
Mark Donovan, Vice Chancellor for Administrative Services, Chicago campus
Joseph Vitosky, Assistant Vice President of Capital Programs and Real Estate Services, OBFS
Kevin Duff, Manager of University Planning and Design, OBFS
Frank Goldberg, Vice Provost for Resource Planning and Management, Chicago campus
Joe G.N. Garcia, Vice President for Health Affairs, Chicago campus
Brady O'Connell, Hewitt Ennis Knupp
Michael Jonen, Associate Vice President for Health Affairs, Chicago campus

Springfield Campus Site

Aaron Shures, Associate Provost, Director of Business and Financial Analysis, Springfield campus

Donna McNeely, University Ethics Officer, Springfield campus

Teleconference

Eileen Cable, Assistant Secretary, Board of Trustees