

**APPROVED BY THE
COMMITTEE**

JUL 14 2014


SECRETARY OF THE BOARD

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

MAY 5, 2014

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, May 5, 2014, at 1:00 p.m. in Room 1030, National Center for Supercomputing Applications, 1205 West Clark Street, Urbana campus, Urbana, Illinois. Attendance via videoconference was available in Room 270, College of Pharmacy Building, 833 South Wood Street, Chicago campus, Chicago, Illinois; the Hatmaker Room, Room 550, Public Affairs Center, One University Plaza, Springfield campus, Springfield, Illinois; and Room S200A, 1601 Parkview Avenue, College of Medicine, Rockford, Illinois. 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: Dr. Timothy N. Koritz; Mr. Edward L. McMillan; Mr. James D. Montgomery; Ms. Pamela B. Strobel. The following committee members were also present: Mr. Lester H. McKeever, Jr., treasurer; Mr. Michael A. Cunningham, voting student trustee from the Urbana campus; and Mr. Jamaal E. Hollins, student trustee from the Springfield campus. Ms. Hannah Cave, Springfield campus student trustee for the 2014-15 academic year, attended the meeting. President Robert A. Easter was also present.

Also present were Dr. Phyllis M. Wise, chancellor, Urbana, and vice president, University of Illinois; Mr. Walter K. Knorr, comptroller (and vice president/chief financial officer); Dr. Christophe Pierre, vice president for academic affairs; Dr. Jerry L. Bauman, interim vice president for health affairs; 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 and some members of the media in attendance at this meeting.

Mr. McMillan welcomed everyone to the meeting and thanked the current student trustees for their service to the committee. He congratulated them on their upcoming graduation. Mr. McMillan then asked if there were any comments or corrections to the minutes from the meeting held February 24, 2014. On motion of Mr. Cunningham, seconded by Mr. Montgomery, the minutes were approved. There were no “nay” votes.

PRESENTATIONS AND REVIEW OF RECOMMENDED BOARD ITEMS
FOR THE MEETING OF THE BOARD OF TRUSTEES
OF THE UNIVERSITY OF ILLINOIS ON MAY 14, 2014

Mr. McMillan asked certain individuals in attendance to provide presentations and report on the items that will appear on the Board’s agenda at its meeting on May 14, 2014. All proposed agenda items discussed at the meeting are on file with the clerk.

Money Purchase Option

Mr. McMillan asked Ms. Maureen M. Parks, associate vice president for human resources, to provide a presentation on changes to the money purchase option used in the calculation of employees' retirement annuities resulting from the pension reform law, Public Act 98-599 (materials on file with the clerk). Ms. Parks stated that employees can choose between a "general formula" and a "money purchase option" in the calculation of their retirement annuities, and explained that many retirees from the University select the "money purchase" option because it results in a higher annuity. She described the calculation of a "money purchase" retirement annuity and the impact of Public Act 98-599 on this formula. Ms. Parks told the committee that the State Universities Retirement System (SURS) is projecting a 20 percent to 30 percent decrease to the money purchase calculation based on changes to actuarial factors. She provided an example of this calculation and the impact of the new law. Ms. Parks discussed eligibility dates and explained that some employees may now have an increased incentive to retire, noting that an estimated 3,420 to 3,990 employees may be impacted by this. She then reported on potential costs to the University. Ms. Parks told the committee that this is one aspect of the pension reform legislation and that there are also other factors impacting employees.

Mr. Montgomery asked if there was any dispute over this being an unintentional mistake. Ms. Parks stated that her understanding is that this was not the intent of the legislation, and Mr. Knorr agreed. President Easter referred to efforts to encourage legislators to change the date used in the legislation.

Preliminary Operating Budget

Next, Mr. McMillan asked Mr. Knorr to discuss the agenda item recommending a preliminary operating budget for Fiscal Year 2015. Mr. Knorr explained that the actions of the State will conclude after the last Board meeting of this fiscal year and said this is a continuation of the appropriation from the previous year to enable the University to continue to pay its bills. He said that this process has been used for many years.

University of Illinois Foundation and University of Illinois Alumni Association Agreements

Mr. McMillan then asked Mr. Knorr to comment on the agenda item recommending the Fiscal Year 2015 services and management agreements for the University of Illinois Alumni Association and the University of Illinois Foundation. Mr. Knorr discussed the Fiscal Year 2015 services and management agreement for the University of Illinois Alumni Association and the \$2,494,300 in direct support for services rendered throughout the year. He indicated this can be adjusted if needed based on State support. Mr. Knorr then commented on the Fiscal Year 2015 services and management agreement for the University of Illinois Foundation and support in the estimated amount of \$11,782,500. He reported that this is \$370,000 less than last year and that the campuses are also providing some support.

Capital Projects and Real Estate

Mr. McMillan then asked Mr. Michael B. Bass, senior associate vice president for business and finance and deputy comptroller, to provide information regarding capital and real estate items.

Mr. Bass provided information regarding the proposed project for gas boiler replacement phase 2 at the Abbott Power Plant at Urbana. He discussed funding for the project and indicated that the replacement is needed.

Next, Mr. Bass commented on the item recommending a budget increase for Curtis Granderson Stadium at Chicago. He discussed the history of the project and reviewed the condition and design changes leading to the recommended budget increase, and he also commented on funding for the project.

Mr. Bass then provided information regarding the recommendation to increase the budget for the Public Safety Building at Springfield. He discussed the budget for this project and indicated that some required items were not included in the original budget.

Next, Mr. Bass commented on the item recommending a budget increase for the Learning Center Space renovation at the College of Medicine, Chicago. He discussed condition changes and design costs leading to this recommendation.

Mr. Bass then provided information regarding the recommendation to approve leased space for the University of Illinois at Chicago College of Nursing Regional Campus at Urbana. He explained that this proposed space would be used for classes and would allow students and staff to move into a quality space.

Lastly, Mr. Bass commented on the recommendation to approve leased space for the College of Medicine at Chicago for medical office space for the departments of otolaryngology and urology. He discussed the terms of the lease, and Mr. Bruce K. Walden,

director of capital programs and real estate services, provided information regarding the bidding process.

Purchase Recommendation

At 1:34 p.m., Mr. McMillan asked Dr. Heather J. Haberaecker, executive assistant vice president, Office of Business and Finance, to report on purchase and renewal recommendations. Dr. Haberaecker stated that recommended purchases total \$78,207,000, and that recommended renewals total \$27,830,000. She commented on the recommended purchase of broker services for the selection, procurement, and cataloging of academic books and monographic material for the University Library at Urbana. She discussed the benefits of using a broker for these services and provided information regarding the bidding process.

Dr. Haberaecker then discussed the recommended purchase of maintenance and repair work for equipment at the Utilities Production Plants at Urbana and explained that this would approve job order contracts with five vendors with no guarantee of utilization. She stated that all five vendors would provide a quote at the time a repair is needed and that the total listed in this item reflects the maximum that can be spent. Discussion followed regarding these contracts and their use.

Dr. Haberaecker then provided information regarding the recommended purchase of gasoline and diesel fuel at Chicago. She stated that the vendor is certified as a women business enterprise in Chicago.

Next, Dr. Haberaecker discussed the recommended purchase of administrative and management services for the Student Health Benefit Program, also known as Campus Care, at Chicago. She told the committee that while only one vendor responded to the request for proposal, she was happy with the pricing that was submitted.

Dr. Haberaecker also provided information regarding the recommended purchase of subscription services for library periodicals and serials in print and electronic format for all University libraries. She then commented on renewal options for regular maintenance and repair work at the Utilities Production Plants at Urbana; for HP network equipment at Urbana; for the purchase of coal at Urbana; for DNA Analyzer Systems reagents at Chicago; and for instruments and disposable supplies for use in DaVinci surgical robots at Chicago.

There were no additional comments or questions regarding the items listed above, and Mr. McMillan stated that all would be forwarded to the full Board.

Internal Audit Third Quarter Report

Next, Mr. McMillan asked Ms. Julie A. Zemaitis, executive director of University audits, to provide a summary of internal audit activity for the third quarter ended March 31, 2014 (materials on file with the clerk). Ms. Zemaitis reviewed the audit plan completion status through March 31, 2014, and stated that 79 percent have been initiated or completed, noting that the industry standard is 75 percent. She presented the planned and actual hours for investigations, special projects, and follow up, and she discussed high and moderate risk or priority audit recommendations. Ms. Zemaitis then presented the

implementation of audit recommendations and referred to a decrease from last quarter. She reported on the risk and priority rating of open audit recommendations and indicated that this is trending toward lower risk over the last three years. She discussed the aging of outstanding audit recommendations. Lastly, Ms. Zemaitis referred to an external quality assessment review of the Office of University Audits and said that the office received the highest level of assurance on conformance to Institute of Internal Auditors Standards, Definition of Internal Auditing, and Code of Ethics. She thanked her team for their hard work. Mr. McMillan thanked Ms. Zemaitis and recognized President Easter for his efforts to implement audit recommendations. Brief discussion followed, and Ms. Zemaitis told Ms. Strobel she would provide a report of high and moderate risk recommendations from 2009 and 2010 that includes a date for expected implementation.

Federal and State Legislative and Budget Updates

Mr. McMillan asked Mr. Knorr to provide federal and State legislative and budget updates. Mr. Knorr reported on the \$217.0 million receivable from the State and said that the University received Monetary Award Program (MAP) funding. He discussed the flat funding for higher education in the Governor's budget and referred to the State appropriation hearings and their appearance before the legislative audit commission. Mr. Knorr also commented on Medicaid funding and told the committee that he would report on the University's compliance audit at a later meeting. He mentioned procurement legislation and pension reform legislation. Discussion followed regarding the compliance audit, and Mr. Knorr explained how the selection of agencies is handled.

MOTION FOR EXECUTIVE SESSION

At 2:03 p.m., Mr. McMillan stated that a motion was in order to convene an executive session to consider the discussion of minutes of meetings lawfully closed under the Open Meetings Act. On motion of Mr. Cunningham, seconded by Mr. Montgomery, this motion was approved. There were no “nay” votes.

EXECUTIVE SESSION

Mr. McMillan convened this executive session at 2:05 p.m. All committee members were present. Also present were Mr. Thomas R. Bearrows, University counsel; and Dr. Susan M. Kies, secretary of the Board of Trustees and of the University.

Discussion of Minutes of Meetings Lawfully Closed Under the Open Meetings Act

Dr. Kies stated that the Open Meetings Act requires that minutes from business conducted under exceptions specified in the Act must, at least every six months, be reviewed to determine whether the need for confidentiality still exists with respect to each item considered under such exception. She reported that she and Mr. Bearrows reviewed all sequestered items considered in executive session during meetings of the Audit, Budget, Finance, and Facilities Committee from May 2012 through January 2014, and recommend that one matter from the November 4, 2013, meeting be made available to the public. Dr. Kies said this portion concerns the discussion of the release of minutes,

and they recommend that all other matters continue to be sequestered. Brief discussion regarding the release of sequestered minutes followed.

EXECUTIVE SESSION ADJOURNED

There being no further business, the executive session adjourned at 2:08 p.m.

AGENDA

At 2:09 p.m., the open session resumed. Mr. McMillan stated that there was one agenda item requiring action by the committee, and Dr. Kies read aloud the title of the item, "Disclose Certain Minutes of Executive Sessions Pursuant to the Open Meetings Act." The committee agreed that one roll call vote would be taken and considered the vote on the agenda item as listed below.

Disclose Certain Minutes of Executive Sessions Pursuant to Open Meetings Act

(1) Under the Open Meetings Act passed by the General Assembly, public bodies subject to the Act that conduct business under exceptions specified in the Act must, at least every six months, determine whether the need for confidentiality still exists with respect to each item considered under such exception.

An item from May 2012 through January 2014 that has been heretofore unreleased is recommended for release at this time.

The University Counsel and the Secretary of the Board, having consulted with appropriate University officers, recommends that the following matter considered in executive session for the time period above be made available to the public at this time.

The committee action recommended in this item complies in all material respects with applicable State and federal laws, University of Illinois *Statutes*, *The General Rules Concerning University Organization and Procedure*, and Board of Trustees policies and directives.

The President of the University concurs.

Executive Session Minutes Released to Public

November 4, 2013, Audit, Budget, Finance, and Facilities Committee

At 2:37 p.m., Dr. Kies stated that the Open Meetings Act requires that minutes from business conducted under exceptions specified in the act must, at least every six months, be reviewed to determine whether the need for confidentiality still exists with respect to each item considered under such exception. She reported that she and Mr. Bearrows reviewed all sequestered items and recommend one matter considered in executive session during meetings of the Audit, Budget, Finance, and Facilities Committee held from September 2010 through July 2013 and recommend that one matter discussed in executive session during the May 9, 2013, meeting be made available to the public. She said this portion concerns the discussion of the release of minutes, and they recommend that all other matters continue to be sequestered. There were no questions or comments regarding this recommendation.

On motion of Mr. Montgomery, seconded by Dr. Koritz, this recommendation was approved by the following vote: Aye, Mr. Cunningham, Dr. Koritz, Mr. McKeever, Mr. McMillan, Mr. Montgomery, Ms. Strobel; No, none; Absent, none.

(The student advisory vote was: Aye, Mr. Hollins)

NEW BUSINESS

Mr. McMillan announced that the next meeting of this committee is scheduled for Monday, July 14, 2014, at 1:00 p.m.

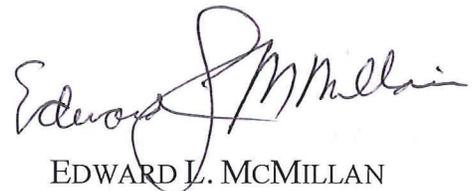
MEETING ADJOURNED

On motion of Mr. Cunningham, seconded by Mr. Hollins, the meeting adjourned at 2:10 p.m. There were no "nay" votes.

Respectfully submitted,



SUSAN M. KIES
Clerk



EDWARD L. MCMILLAN
Chair



EILEEN B. CABLE
Assistant Clerk