

APPROVED BY THE
COMMITTEE

NOV 02 2015


SECRETARY OF THE BOARD

MEETING OF THE AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE
OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS
JULY 13, 2015

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, July 13, 2015, 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, 833 South Wood Street, Chicago campus, Chicago, Illinois; and the Hatmaker Room, Room 550, Public Affairs Center, One University Plaza, Springfield campus, Springfield, 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: Mr. Ramón Cepeda, Mr. Lester H. McKeever Jr., treasurer; Mr. Edward L. McMillan. Mr. James D. Montgomery was absent. The following student trustees were present: Mr. Dominique Wilson¹, voting student trustee, Springfield campus; Mr. Jaylin D. McClinton, Urbana campus; Mr. Jauwan Hall, Chicago campus. President Timothy L. Killeen was present.

Also in attendance were Dr. Phyllis M. Wise, chancellor, Urbana campus, and vice president, University of Illinois; Dr. Christophe Pierre, vice president for

¹ Mr. Wilson attended via telephone.

academic affairs; Mr. Walter K. Knorr, comptroller (and vice president/chief financial officer); Dr. Lawrence B. Schook, vice president for research; 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 asked if there were any comments or corrections to the minutes from the meeting held April 27, 2015. On motion of Mr. Cepeda, seconded by Mr. McKeever, 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 JULY 23, 2015

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 July 23, 2015. All proposed agenda items discussed at the meeting are on file with the clerk.

Proposed Affiliation Agreement for the Carle Illinois College of Medicine

Mr. McMillan asked Dr. Wise to provide information on the proposed affiliation agreement with The Carle Foundation establishing the “Carle Illinois College of Medicine.” Dr. Wise began her presentation (materials on file with the clerk) by stating that much work has been done to develop this proposed affiliation agreement, and she said that copies of the agreement and an executive summary had been made available to

trustees. She highlighted aspects of organization and governance, financial organization, academic operations and clinical oversight, and the resolution process. Dr. Wise commented on the establishment of this new college and said that this proposed affiliation agreement provides its legal framework. Mr. McMillan thanked Dr. Wise for the presentation.

Authorized Representative of the Board of Trustees of the University of Illinois
for the University of Illinois Liaison Office in New Delhi, India

Next, Mr. McMillan asked Mr. Pradeep Khanna, associate chancellor, Urbana, to discuss the recommendation to appoint an authorized representative of the Board for the University of Illinois Liaison Office in New Delhi, India. Mr. Khanna described the requirements of this appointment and provided information on the recommended representative. Discussion followed regarding the necessity of creating a liaison office, and Mr. Khanna gave examples of opportunities for engagement. Dr. Wise also commented on the benefits of establishing this office, noting that the offer was made to share the space with the Chicago campus.

Fiscal Year 2015 External Audit

Mr. McMillan then asked Mr. Patrick M. Patterson, controller and senior assistant vice president, to give a presentation on the Fiscal Year 2015 external audit (materials on file with the clerk). Mr. Patterson told the committee that CliftonLarsonAllen (CLA) succeeds KPMG as special assistant to the Office of the Auditor General and introduced Mr. Jeff Bonick, a

principal at CLA, who is overseeing the University of Illinois audit engagement. Mr. Bonick presented audit scope and deliverables for the Fiscal Year 2015 audit and reviewed the timeline and engagement team. Mr. Patterson then discussed University support for the audit. Mr. McMillan thanked them for the presentation.

Capital and Real Estate Items

Mr. McMillan then asked Mr. Michael B. Bass, senior associate vice president and deputy comptroller, to provide background information on recommended capital and real estate items appearing on the Board's agenda at its July 23, 2015, meeting. Mr. Bass first commented on the proposed energy conservation project and professional and construction services award for the College of Engineering buildings at Urbana. He outlined aspects of the project and explained that this is an energy service company (ESCO) project and follows a different process with different statutes than other University projects. Mr. Bass reported on the budget, energy cost savings, and timeline, and he provided the rate of Minority and Female Business Enterprise (MAFBE) participation.

Next, Mr. Bass provided information on the recommendation to approve the project, amend the professional services consultant agreement, and employ a construction manager for the University Hall facade repair project at Chicago. Mr. Bass explained that this project includes comprehensive repair, which is needed due to the cracking and falling of concrete. He discussed the recommendation to amend the

professional services consultant agreement and the selection of a construction manager and report on the rate of MAFBE participation.

Mr. Bass then commented on the recommendation to increase the project budget for standing seam roof replacement at the Veterinary Teaching Hospital at Urbana. He said that the initial budget for this project fell below the threshold requiring Board approval, and he explained the reason for the budget increase. Next, Mr. Bass reported on the recommendation to employ a professional services consultant for the classroom renovation at Turner Hall at Urbana. He stated that this project was approved in January 2015, and he discussed the selection of an architect/engineer for this project, the budget, and rate of MAFBE participation. Mr. Bass then explained that the next item on the agenda, a recommendation to employ a professional services consultant for the master plan update at Urbana, has been pulled and will not go to the full Board for consideration at this time.

Next, Dr. Eric A. Gislason, interim vice chancellor for academic affairs and provost, Chicago, commented on multiple recommendations to name certain buildings on the Chicago campus. Dr. Gislason reported on the recommendation to name the compounding laboratory as the Foglia Family Foundation Formulation Laboratory located in the College of Pharmacy in recognition of the Foglia Family Foundation's pledge of \$1.0 million toward renovation of the space. He then discussed the recommendation to name the Ophthalmic Surgery Training and Simulation Center at the Illinois Eye and Ear Infirmary building in recognition of Gerhard and Ruth Cless, who he said have made gifts to the Department of Ophthalmology and Visual Sciences totaling

\$2.2 million over the last 15 years, \$200,000 of which has supported the build-out and technology infrastructure of the Ophthalmic Surgery Training and Simulation Center. Lastly, Dr. Gislason discussed the naming of the Student Veterans Center in Student Center East in recognition of Tom and Peggy Cisar. He told the committee that the Cisars have been involved donors and that their gifts totaling \$81,500 toward the renovation of the space covered more than half of the total cost of the project.

Purchase Recommendations

Next, Mr. McMillan asked Mr. Richard D. Elmore, assistant vice president for procurement services, to report on purchase recommendations. Mr. Elmore first discussed the recommendation to purchase nutritionally balanced meals for student athletes and premium seating food and beverage service at Memorial Stadium and the State Farm Center. He discussed the funding for each and said that coupling this with the concessions contract results in a savings of 24 percent.

Next, Mr. Elmore provided information on the renewal option to provide specialized radiation oncology services on an as-needed-basis by the University of Chicago. He explained that the University of Illinois Hospital and Health Sciences System does not employ attending physician, PhD-level medical physicist, or radiation oncology resident staff in the radiation oncology department.

Application Fee Increases, Urbana and Chicago

Mr. McMillan then asked Dr. Pierre to comment on the recommendation to increase undergraduate application fees at Chicago and international application fees at Urbana. Dr. Pierre reviewed the recommended increases and said this would offset the rising costs of recruiting efforts and application processing.

Auxiliary Facilities System Revenue Bonds (Additional Project), Series 2011A

Next, Mr. McMillan asked Dr. Peter J. Newman, associate vice president for treasury operations, and Mr. Robert L. Plankenhorn, assistant vice president for treasury operations, to comment on the recommendation regarding auxiliary facilities system revenue bonds. Dr. Newman explained the construction of Residence Hall No. 2 and the demolition of Forbes Hall in Stanley O. Ikenberry Commons at Urbana cost \$6.6 million less than the \$63.9 million budgeted. He said that the excess proceeds of the Bonds resulting from the reduced project cost must be used for an auxiliary facilities system purpose, and that this item recommends utilizing these funds for the construction of Residence Hall No. 3 at Stanley O. Ikenberry Commons.

Summary of Internal Audit Activity for Quarter Ended March 31, 2015

Mr. McMillan then asked Ms. Julie A. Zemaitis, executive director of University audits, to provide a presentation on internal audit activity for quarter ended March 31, 2015 (materials on file with the clerk). Ms. Zemaitis presented the audit plan completion status

for Fiscal Year 2015 and said that the audit plan is risk-based and frequently revised. She then discussed audit recommendation areas by high and moderate risk or priority, and she told the committee that several in the high risk or priority category have been addressed or are in progress of being implemented. Ms. Zemaitis presented the implementation of audit recommendations through the third quarter of Fiscal Year 2015 and said the ending balance is trending down. She reported on the aging of outstanding recommendations by management's original implementation date and said good progress is being made in this area. Ms. Zemaitis also presented high risk audit recommendations with management's original implementation dates of Fiscal Year 2014 and prior. Mr. McMillan inquired about moderate priority recommendations from Fiscal Year 2010, and Ms. Zemaitis indicated that progress is being made on these recommendations.

Office of University Audits Two-Year Internal Audit Plan for Fiscal Years 2016-2017

Ms. Zemaitis then presented the two-year internal audit plan for Fiscal Years 2016 and 2017 (materials on file with the clerk). Ms. Zemaitis reviewed fiscal control and internal auditing act requirements and IIA standards and presented a method to address organizational risks. Ms. Zemaitis then showed an organizational chart of the Office of University Audits and presented a mapping of the plan to strategic themes. She provided charts reflecting the concentration of planned hours by campus or area. Ms. Zemaitis showed that the number of audit staff at the University falls below benchmark comparisons, and she discussed approaches to maximize effectiveness with current staffing levels. She concluded her

presentation by commenting on the ongoing monitoring of risks and adjustments to the plan that are made throughout the year.

Mr. McKeever expressed concern regarding audit staffing levels and said he hopes that these positions would be considered essential, despite the current hiring freeze in University administration. President Killeen commented that it is imperative to staff according to need in this important area. He and Ms. Zemaitis then briefly discussed systemic issues at the University that may be addressed through additional training or other means.

Investment Performance and Program Update

Next, Mr. McMillan asked Dr. Newman to introduce individuals to give an investment performance and program update (materials on file with the clerk). Dr. Newman introduced Mr. Dean A. Hagan, director of University investments, and Ms. Geri Melchiorre, associate director of University investments. Dr. Newman also introduced Ms. Raneen Jalajel and Mr. Bill Ryan from Aon Hewitt Investment Consulting, and he thanked Aon for the continued partnership and support. Mr. Hagan presented a capital markets review as of March 31, 2015. He showed a *Bloomberg News* comparison of the best five-year annualized returns among the largest college endowments in the United States that placed the University of Illinois endowment at second place, and he discussed endowment pool rankings through March 31, 2015. Mr. Hagan then presented actual and long-term asset allocation. He discussed private equity investments and the transition to a core/satellite approach, and he provided information on Clearlake Capital Partners Fund

IV. Next, Ms. Melchiorre presented a yield curve comparison and compared operating pool total annualized returns to the performance benchmark. She showed the Board-approved operating pool target and actual asset allocation, and she discussed the implementation of strategic rebalancing in the operating pool through the use of scenario analysis and forecasting models.

University Budget Preparations

At 2:28 p.m., Mr. McMillan asked Dr. Pierre to discuss budget preparations. Dr. Pierre told the committee that the Fiscal Year 2016 Budget Summary for Operations (“Orange Book”), Academic and Administrative Appointments for Contract Year 2015-16 (“Gray Book”), and preliminary Fiscal Year 2017 Budget Request (“Green Book”) would normally be presented to the Board at its September meeting. He said that due to the State’s budget stalemate and current lack of a Fiscal Year 2016 State appropriation, the University’s Fiscal Year 2016 budget is not complete, and the presentation of the Fiscal Year 2016 budget will be postponed. He said that the presentation of the preliminary Fiscal Year 2017 budget request will also be postponed, since the Fiscal Year 2017 budget request will be based on the budget for Fiscal Year 2016. He stated that the Academic and Administrative Appointments for Contract Year 2015-16 (“Gray Book”) will go to the Board at its September meeting, noting that a salary program is on hold.

Legislative Report

Mr. McMillan then asked Ms. Jennifer M. Creasey, assistant director of governmental relations, to give a legislative report. Ms. Creasey discussed the State budget stalemate and the revenue shortfall facing the State. She reported that advocacy work on behalf of the University is ongoing.

Update on State and Federal Budget and Financial Matters

At 2:38 p.m., Mr. Knorr provided an update on the State and federal budget and other financial matters. He discussed the potential range of reduction in the Fiscal Year 2016 State appropriation and said it is also possible that the University may be forced to assume some employee health-care and pension costs. He said the University is authorized to make payroll using existing resources and that he expects to collect the remaining receivable for Fiscal Year 2015. Mr. Knorr then commented on new proposed pension legislation and its impact on employee pensions.

OLD BUSINESS

There was no business presented under this aegis.

NEW BUSINESS

Mr. McMillan welcomed student trustees Mr. Wilson, Mr. McClinton, and Mr. Hall to the meeting. He announced that the next meeting is scheduled for Monday, August 31, 2015, at 1:00 p.m.

MEETING ADJOURNED

On motion of Mr. Montgomery, seconded by Mr. McKeever, the meeting adjourned at 2:01 p.m. There were no "nay" votes.

Respectfully submitted,



SUSAN M. KIES
Clerk



EDWARD L. McMILLAN
Chair



EILEEN B. CABLE
Assistant Clerk