

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

MARCH 4, 2019

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, March 4, 2019, at 3:00 p.m., in Room 414, Administrative Office Building, 1737 West Polk Street, Chicago, Illinois. Attendance via videoconference was available in Room 1030, National Center for Supercomputing Applications, 1205 West Clark Street, Urbana, Illinois; and the Hatmaker Room, Room 550, Public Affairs Center, One University Plaza, Springfield, Illinois.

Trustee Ramón Cepeda, chair of the committee, convened the meeting and asked the secretary to call the roll. The following committee members were present: Mr. Ramón Cepeda; Mr. Donald J. Edwards; Dr. Stuart C. King; Mr. Lester H. McKeever Jr., treasurer; Mr. Darius M. Newsome, student trustee, Chicago; Ms. Shaina Humphrey, voting student trustee, Springfield. Mr. Trayshawn M. W. Mitchell, student trustee, Urbana, was absent.

President Timothy L. Killeen was in attendance. Also present were: Dr. Barbara J. Wilson, executive vice president and vice president for academic affairs; Dr. Avijit Ghosh, comptroller (and vice president/chief financial officer); Dr. Edward Seidel, vice president for economic development and innovation; Mr. Thomas R. Bearrows, University counsel; Mr. Thomas P. Hardy, executive director for University relations;

and Ms. Dedra M. Williams, 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. Cepeda asked if there were any comments or corrections to the minutes from the meeting held January 22, 2019. On motion of 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 MARCH 14, 2019

Mr. Cepeda 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 March 14, 2019. All proposed agenda items discussed at the meeting are on file with the secretary.

Delegate Authority to the Vice President/Chief Financial Officer and Comptroller to Fund a New Project and Refund Outstanding Auxiliary Facilities System Revenue Bonds

Mr. Cepeda asked Mr. Robert L. Plankenhorn, assistant vice president for treasury operations, to discuss the recommendation to delegate authority to the comptroller (and vice president/chief financial officer) to fund a new project and refund outstanding auxiliary facilities system revenue bonds. Mr. Plankenhorn explained that this would allow for the issuance of three series of bonds to fund renovation and construction of auxiliary facilities at Urbana, Chicago, and Springfield. He said this recommendation also includes the restructuring of Series 2010A bonds to extend maturities to better meet

the needs of borrowing units and refund other outstanding bonds to produce debt service savings. Mr. Plankenhorn stated it authorizes the sale and issuance of bonds of an aggregate principal amount not to exceed \$225.0 million, and he reviewed other aspects of the recommendation pertaining to the issuance and refunding of bonds and delegation of authority to the comptroller (and vice president/chief financial officer). He also reported on anticipated savings from the restructuring and refunding of existing bonds.

Mr. McKeever inquired about the current balance and new money, and Mr. Plankenhorn indicated that \$36.0 million is new money, plus \$49.0 million for the renovation of Townsend Hall and Wardall Hall, Illinois Street Residence Halls, Urbana. Mr. McKeever also asked about minority participation rates, and Mr. Plankenhorn explained these are competitive bids, stating that efforts are made to increase minority participation in situations where a bond sale is negotiated and the University selects underwriters and other vendors. Mr. Cepeda inquired about bond council, and Mr. Plankenhorn stated that per the State procurement officer, these types of transactions require the ranking of responses from firms. He said the University is mandated to choose the top-ranked firm. Mr. Scott E. Rice, legal counsel, Urbana, said the University must comply with State procurement regulations that require ranking of firms in these situations. Mr. Rice said the University is bound by a Request for Proposal (RFP) that was issued several years ago, noting that there is more latitude in investments than in this area. Additional discussion followed, and Dr. Ghosh explained that the firms are ranked on a series of criteria, including the fee. Mr. Rice commented on the lengthy RFP process, which he said can take six months to two years to complete. Mr. Plankenhorn

explained that the two methods of sale, negotiated and competitive, have different processes, and that in a competitive sale, firms bid on the transaction. Mr. Edwards asked for a report that outlines the rules pertaining to minority contracting, including goals, rules, and requirements for construction projects and professional advisory services. Committee members then discussed goals versus requirements at the University and State, and Mr. Michael B. Bass, senior associate vice president and deputy comptroller, discussed some goals for minority participation for construction projects and referred to recent rules on this topic that were just released. Discussion continued, and Mr. Cepeda echoed Mr. Edwards' request for a report on this issue.

Capital and Real Estate Items

Next, Mr. Cepeda asked Mr. Bass to report on capital and real estate items. Mr. Bass first discussed the recommendation to approve the project budget for renovation at Townsend Hall and Wardall Hall, Illinois Street Residence Halls, Urbana. Mr. Bass gave a brief overview of the project and explained that additional funds are needed to address deterioration of the green colored precast concrete wall panels and steel anchors. He said the \$4.0 million that is needed for this change in scope will be transferred from the project for renovation and addition, Illinois Street Residence Halls Dining Facility, which is being done concurrently. He stated that project had a budget surplus as a result of favorable bids.

Mr. Bass then reported on the recommendation at Urbana to name the running track portion of the track and field replacement project as the Gary R. Wieneke

Track. He told the committee that Mr. Wieneke is the most decorated track and field coach in the history of the university, and he described the role of the Board in naming buildings and spaces throughout the University. Mr. Edwards inquired about the Board's role in these matters, in general, and in situations where the recommendation for naming is not directly tied to fundraising. Mr. Edwards asked that the Board be given more information about the rationale for namings in the future.

Mr. Bass then discussed the recommendation to approve the project budget for pool infill renovation at Freer Hall, Urbana. He gave a history of the project and explained that a budget increase is needed due to contractor bid withdrawal and extensive unforeseen conditions. Mr. Bass said additional costs for the professional services consultant and contractors due to delay are included in the cost.

Next, Mr. Bass provided information on the recommendation to approve the project budget and award a construction contract for small animal surgery renovation and addition at the Veterinary Teaching Hospital, Urbana. He reviewed the history of the project and said that additional funds are needed to support the award of contracts. Mr. Bass also reported on the recommendation to award a contract to the Petry-Kuhne Company, described the scope of work to be completed, and reported on Minority and Female Business Enterprise (MAFBE) participation rates. Committee members briefly discussed aspects of the project, including a previous approval to increase the project budget to add square footage to accommodate the need for additional capacity. Dr. King asked for a report at a later date that provides information on the financial status of the veterinary medical school. Mr. McKeever noted that the minority participation rates are

not included in the agenda item, and he asked how this statement, which appears on all agenda items, relates to rules pertaining to minority participation: “The Board 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.” Brief discussion followed, and Dr. Ghosh indicated that more information will be provided to the committee later.

Next, Mr. Bass discussed the recommendation to award construction contracts for renovation and addition at the Mechanical Engineering Building at Urbana. He reviewed the history and budget for the project and said it is recommended that CannonDesign of Chicago be awarded the contract for professional services required for the conceptualization and schematic design phases of the project. He reported on MAFBE participation rates and discussed the data used to calculate these rates, noting that some vendors may fall into more than one category. Mr. Bass said the University is examining multiple methods for increasing minority participation rates.

Mr. Cepeda then asked Mr. Bass to report on the recommendation to employ a professional services consultant for renovation for the Altgeld Hall and Replacement project at Illini Hall at Urbana. Dr. Ghosh indicated that he preferred to discuss this recommendation because it is an example of the new process that will be used to plan projects and more accurately determine the cost. He said this particular project is complex and will be conducted in phases. Dr. Ghosh said this recommendation would allow for the hiring of a professional services consultant to assist with the

conceptualization and schematic design phases of the project. He said the project will then be brought back to the Board for approval and explained that conducting the conceptualization and schematic design work up front will lead to a more accurate initial project budget.

Purchase Recommendations

At 3:56 p.m., Mr. Cepeda asked Ms. Gloria Keeley, assistant vice president for administrative services, to report on purchase recommendations. Ms. Keeley discussed the recommended purchase of a high-field 9.4 Tesla small animal preclinical Magnetic Resonance Imaging (MRI) system for the Beckman Institute for Advanced Science and Technology Biomedical Imaging Center, Urbana, and said that certain faculty projects are not possible without the system. She told the committee that this purchase is exempt from procurement code processes because the expenditure is for performing sponsored research and other sponsored activities under grants and contracts funded by the sponsor or by sources other than State appropriations, and she said a 20.1 percent discount was achieved through negotiations. Ms. Keeley told the committee that another discount is expected after Board approval of the purchase.

Ms. Keeley then discussed the recommendation to purchase outage resolution, repairs, and maintenance on all systems and structures at UIC Utilities. She said the estimated cost of \$13.0 million was derived from data over the past two years.

Next, Ms. Keeley reported on the recommended renewal for the purchase of reagents for DNA Analyzer Systems for the Roy J. Carver Biotechnology Center,

Urbana. She said this is the first of five renewals and that the original purchase was a sole-source purchase, and she said these reagents will be used by multiple departments. Ms. Keeley reported that negotiations resulted in a 12 percent discount on the majority of items and a 5 percent discount on the rest.

Ms. Keeley concluded her presentation of purchase recommendations, and Dr. King inquired about the process for determining the allocation of research dollars, referring to the Tesla small animal preclinical MRI system. Ms. Keeley indicated she would report back with additional information.

There was no objection to the items listed above going forward to the full Board for voting.

Fiscal Year 2018 Financial Audit

At 4:09 p.m., Mr. Cepeda asked Mr. Brent Rasmus, assistant controller, to give a presentation on the Fiscal Year 2018 financial audit (materials on file with the secretary). Mr. Rasmus reported that the University received an unmodified “clean” audit opinion on financial statements and said there is no change to the Fiscal Year 2018 financial results reported to the Board in November. He said there were four University-wide findings, and he described each of the findings and methods to address each, noting ongoing improvement efforts are underway.

Investment Performance and Program Update

Next, Mr. Cepeda asked Dr. Peter J. Newman, associate vice president for treasury operations, to give a presentation on investment performance and program update (materials on file with the secretary). Dr. Newman showed system endowment and operating assets and said the majority of funds in the operating pool are invested conservatively. He then presented a chart depicting endowment pool gifts by purpose, and he discussed allocations and target changes for the endowment pool asset allocation. Dr. Newman reviewed endowment pool performance and showed that while the endowment returned negative 4.5 percent over a one-year period, the 10-year period posted a strong return of 9.7 percent. He said the endowment is expected to rebound over time. Dr. Newman then showed endowment pool performance compared to peer institutions and said the endowment ranked above the median for three- and five-year periods and in the top decile for the 10-year period, noting that long-term results are consistently positive. He discussed the operating investments strategy that consists of investing funds across four liquidity layers, and he showed the financial impact of the University's investment program for the 2018 calendar year.

Discussion followed, and Mr. Edwards inquired about the administrative fee. Dr. Ghosh indicated this supports development and fundraising costs across the University. Additional discussion followed regarding the determination of the appropriate percent to be allocated to an administrative fee, how those funds are distributed, and whether the endowment pool is the appropriate source for these funds. Dr. Newman said this fee is typical in higher education. Committee members continued

to discuss this issue, and Mr. Cepeda stated that additional information on this topic will be made available after the meeting of the committee.

Summary of Internal Audit Activity through Second Quarter Ended December 31, 2018

At 4:35 p.m., Mr. Cepeda asked Ms. Julie A. Zemaitis, executive director of University audits, to present a summary of internal audit activity for the second quarter ended December 31, 2018 (materials on file with the secretary). Ms. Zemaitis showed the Fiscal Year 2019 audit plan completion status, which she said is roughly the same as last year, and noted that less hours have been used than were planned so far. She then presented the implementation of audit recommendations in 2017, 2018, and 2019. Ms. Zemaitis discussed the year-to-date high and moderate risk audit report findings from July 1, 2018, through December 31, 2018, and reported on the functional areas of the audit report findings. Next, Ms. Zemaitis showed the audit report findings by operational area, and she presented the aging of open recommendations by management's original implementation date, noting good progress. She presented the aging of open recommendations with management's original implementation dates of Fiscal Year 2018 and prior, many of which she said are due to be implemented this year.

Ms. Zemaitis then gave an update on the quality assurance review process and described the expertise and experience of members of the Institute of Internal Auditors Quality Services. She listed objectives of the quality assurance review process and said members of the Institute of Internal Auditors Quality Services will be on site in April, and a report will be issued in May. Mr. McKeever thanked Ms. Zemaitis for her

work and announced to the committee that she was appointed chair of the State Internal Audit Advisory Board. This was followed by a round of applause.

OLD BUSINESS

There was no business presented under this aegis.

NEW BUSINESS

Dr. Ghosh stated that he will be responding to requests for additional information that were made during today's meeting. Mr. Cepeda announced that the next meeting of this committee is scheduled for Monday, May 6, 2019, at 3:00 p.m.

MEETING ADJOURNED

On motion of Mr. Newsome, seconded by Mr. Edwards, the meeting adjourned at 4:45 p.m. There were no "nay" votes.

Respectfully submitted,

DEDRA M. WILLIAMS
Secretary

RAMÓN CEPEDA
Chair

EILEEN B. CABLE
Special Assistant to the Secretary