

MEETING OF THE AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE

OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS

APPROVED BY THE
COMMITTEE

November 8, 2010

JAN 10 2011

Michele M. Thompson
SECRETARY OF THE BOARD

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday,

November 8, 2010, 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 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, Mr. Charles L. Olivier, and Ms. Pamela B. Strobel.

Also present were President Michael J. Hogan; Mr. Walter K. Knorr, vice president/chief financial officer and comptroller; Dr. Mrinalini C. Rao, vice president for academic affairs; Dr. Avijit Ghosh, vice president for technology and economic development; Mr. Thomas R. Bearrows, University counsel; Mr. Thomas P. Hardy, executive director for University relations; and Dr. Michele M. Thompson, secretary.

Attached is a listing of other staff members in attendance at this meeting as well as some members of the media.

Mr. McMillan welcomed the committee members and others to the meeting and stated that the first item on the agenda is to approve the minutes from the meeting held on September 13, 2010. On motion of Ms. Strobel and seconded by Mr. Montgomery the minutes were approved unanimously.

REPORT ON THE UNIVERSITY'S ENDOWMENT POOL
BY REPRESENTATIVES OF HEWITT ENNISKNUPP, INC.

Mr. McMillan asked Ms. Angela Cantillon and Mr. Brady O'Connell of Hewitt EnnisKnupp, Inc. to report to the committee on this topic (materials on file with the clerk). The representatives reviewed the role of the endowment pool and the recommendations for its growth sufficient to meet the Consumer Price Index (CPI) and future needs of the University. They indicated that the role of the endowment pool is to provide support, currently \$12.5 million per year, to the University for student financial aid, endowed chairs and professorships for faculty, and institutional support for such things as the libraries.

The presenters stated that there are some important decisions for the Board to make concerning strategic changes that will be recommended. They stated the goals of the changes to be recommended are to improve the pool's investment diversification and to reduce the volatility of returns.

Ms. Cantillon and Mr. O'Connell described three categories of assets in the endowment pool: low risk assets, growth assets, and real assets, and provided strategy objectives and implementation options for each. Ms. Cantillon then stated that they had five primary recommendations for changes to the pool's asset allocation:

1. Invest globally in publicly traded equities
2. Add conservative investment mandate to fixed income allocation for a 50/50 split between U. S. and non-U. S. equity exposure
3. Add real assets exposure
4. Increase private equity exposure

5. Diversify alternative investment strategies—add hedge funds.

Discussion followed with the committee members concerning these recommendations that included questions about investments in commodities, the decision regarding the balanced split between U. S. and non-U. S. equities, and whether historical data were available for comparing past allocations.

Mr. O'Connell stated that the recommendations being made would have better served the portfolio of the endowment pool had they been in place in past years. He added that implementing these recommendations would align the University of Illinois' endowment pool's investments more closely with practices of peer universities.

Further discussion ensued, including a query about the source of the funds for the endowment pool, which was answered by explaining that these funds have come to the University as gifts and bequests, many made before the formation of the University of Illinois Foundation.

Ms. Strobel stated that she supported the recommendations. There was no disagreement.

Mr. Knorr apprised the committee that these recommendations would be presented to the Board at its January 20, 2011, meeting. He also stated that in the future, Hewitt EnnisKnupp, Inc. would report to the Board annually on the performance of this fund.

PRESENTATION OF MASTER PLAN FOR CHICAGO CAMPUS

BY REPRESENTATIVES OF BOOTH HANSEN PLANNING AND ARCHITECTURE
AND HARGREAVES AND ASSOCIATES

Mr. Knorr invited the representatives of Booth Hansen Planning and Architecture, Mr. Larry Booth and Mr. David Mann, and Mary Margaret Jones, of Hargreaves and Associates, to present

the results of a plan for future development of the Chicago campus that had been developed in consultation with many individuals and groups on the campus (materials on file with the clerk).

The representatives of the two firms discussed the history of master plans for the Chicago campus and stated that the new plan they are presenting is less prescriptive and more flexible than earlier master plans. They indicated that their plan presents a framework for development of the campus for the next 40 to 50 years. They also stated that there had not been an update to the campus' master plan since the 1990s. The firms' representatives reported that community members from the area surrounding the campus had been involved in discussions about planning for future development of the campus. In evaluating the current status of the campus' physical facilities, they cited a current lack of cohesion between the two sides of the campus, the lack of inviting spaces on the campus, varied graphic styles in use on the two sides or an absence of graphics for identification and directions. They said that their goals had been to create an appealing place, connect the campus to the city, and to create a sense of greatness for the campus. The changes described included new gateways into the campus, development of the edges of the campus to relate to the city, and to reserve spaces in the interior of the campus for green areas. They observed that University Hall is the signature building on the campus, and it needs attention in terms of repairs. They also observed that stewardship of all the buildings on the campus was important and that a goal of bringing buildings up to LEED standards would be important. The representatives stated that their master plan provides four million square feet for growth of the campus.

Discussion among the committee members followed concerning transportation to and on campus, parking, and the appeal a transformed campus would have for students and recruitment.

DIVERSITY IN CONTRACTING FOR PROFESSIONAL AND ARTISTIC SERVICES

As a part of each Board meeting since September 2009, a presentation has been made on the University's efforts to achieve greater diversity in all areas. For the upcoming November 18, 2010, Board meeting a presentation will be made concerning the University's success in attracting minority and female business enterprises (MAFBE) as contractors to provide professional and artistic services. Mr. McMillan asked for a review of this presentation.

Dr. Heather Haberaecker, executive assistant vice president for business and finance, indicated that she would make this presentation to the Board and reviewed what would be presented (materials on file with the clerk). She reported positive information about the amount of participation of MAFBE firms in contracts for professional and artistic services. Also, she reviewed the procedures for Requests for Proposals (RFPs) and Qualifications Based Selections (QBSs) process. She stated that the number of contracts with MAFBE legal firms was particularly impressive. Dr. Haberaecker also said that in order to increase the number of MAFBE contractors in the professional and artistic services area the University was seeking the services of a consultant in this area, and that an RFP had been issued. She said that the purpose of engaging a consultant would be to have assistance in developing strategies for increasing the participation of MAFBE contractors in professional and artistic services. Dr. Haberaecker then reviewed the process by which a firm becomes certified as a MAFBE firm.

Brief discussion followed that included comments about treating performances and cultural events for particular artists and performers as a service. Dr. Haberaecker explained that the Illinois Procurement Code allows such engagements to be treated as "sole source" procurements. In response to a question about the total amount of money spent on MAFBE

firms, Dr. Haberaecker stated that out of approximately \$75 million spent on professional and artistic services, approximately \$3 million is currently spent on MAFBE firms in these areas.

REVIEW OF TUITION AND AFFORDABILITY

Mr. Knorr made this presentation to the committee and began by defining the elements that drive the cost of tuition in a large public university. These included:

- The level of State support
- Competition
- The mix of disciplines and functions
- Unavoidable and mandated costs.

Level of State Support

Mr. Knorr reported that State support for higher education in Illinois had decreased precipitously in the past 10 years and that the State of Illinois now ranks 38th nationally for support for higher education.

He reviewed the four parts of higher education in Illinois that receive State support and the reductions in State support for the last 10 years:

- Universities funding was reduced by 26 percent
- Community colleges funding was reduced by 21 percent
- The Illinois Student Assistance Commission (financial aid to students) was reduced by 6 percent
- Pensions--200 percent additional support is required to fund pensions for annuitants from public higher education institutions in the State.

Further, he said that student enrollment at the University had increased by 9,000 in the last 10 years.

Mr. Knorr advised the committee that tuition increases, which are a source of concern given the current level of tuition, were not keeping up with the loss of State support. In addition, he noted that the State had not provided a capital budget for most of the last six years and that University fees such as the Academic Facilities Maintenance Assessment fee and campus budgets for operations were funding capital improvements. He stated that fiscal year 2010 marked the first time in six years that the State provided a capital budget. This included \$60 million for funding the petascale facility at Urbana; \$60 million for renovations to Lincoln Hall, Urbana; and \$15 million for the College of Medicine at Rockford Rural Health Center.

He then reported that the University had not received \$321 million owed to the University by the State for fiscal year 2011 and still had not received \$11 million owed from fiscal year 2010, which is similar to what the University experienced last fiscal year.

Competition

Mr. Knorr reviewed the next cost driver for tuition, compensation for faculty and staff, and stated that the University of Illinois' main competition for faculty salaries is from private universities. He noted that faculty salaries at Urbana lagged \$28,600 in comparison with peer universities and \$35,000 at Chicago. He added that the Urbana campus ranks fifth among Big Ten universities in faculty salaries.

Tuition and Fees

For explanations for this segment of his report, Mr. Knorr called on Dr. W. Randall Kangas, associate vice president for planning and budgeting to provide information to the Board. Mr. Knorr then commented on the State of Illinois' statute providing for guaranteed tuition which

guarantees the same tuition for four years for entering undergraduates, and is not well understood when comparisons of tuition increases are made. This led to a review of student fees, which add significantly to the cost of attendance. He reported that tuition and fees together total \$11,372 for most undergraduates at Urbana; \$11,366 at Chicago; and \$9,997 at Springfield, where tuition is charged by the credit hour.

Financial Aid and Affordability

In presenting information about financial aid to students Mr. Knorr told the committee that half of the students at the University pay less than the full price for tuition and fees. He then asked Dr. Kangas to provide information about the sources of financial aid to students. Dr. Kangas indicated that these are: Pell Grants (federal), ISAC (State), and institutional (University) funds. He indicated that students receive \$60 million from ISAC, \$30-\$40 million from Pell Grants and in 2011, \$45 million from University sources.

Concluding Remarks

In summing up his remarks, Mr. Knorr stated that diminishing student assistance and competition for faculty and staff are very important challenges for the future in terms of quality and accessibility for the University, both of which relate to the University's stature and mission.

SUMMARY OF INTERNAL AUDIT ACTIVITY

FIRST QUARTER ENDED SEPTEMBER 30, 2010

Ms. Julie A. Zemaitis, executive director of University Audits, presented a summary of audit activity for the first quarter of the 2011 fiscal year, which ended on September 30, 2010 (materials on file with the clerk). She reported that progress toward completion of planned audits was slightly behind the target for the first quarter due to requests for special audits and investigations. She stated that this will have an impact on the completion of audits planned for

the year. She reported that 10 audit reports were issued in the first quarter, and she then reviewed these in terms of findings for the first quarter risk level, indicating that there were three audit report findings rated “high risk” for Urbana and eight for Chicago. Further, there were 24 “moderate risk” findings in audit reports for Urbana and 15 for Chicago. Next, she reviewed completion of audit recommendations, noting that the number of recommendations yet to be implemented totaled 457 at the beginning of fiscal year 2011, and at the end of the first quarter this total was 473. She added that the majority of these are not due to be implemented until fiscal year 2011 and beyond. In terms of the aging of these recommendations, she stated that 155 recommendations had original implementation due dates of fiscal year 2010 and earlier. Of these, she said that 70 related to one audit, and that management had made progress in addressing these. Of the remaining 85, she said that 20 are considered to be high risk and are receiving the highest level of attention from management and University Audits.

Ms. Zemaitis then reviewed the Audit Function Charter that is to be a part of the responsibility of the committee and is to be presented to the Board as an agenda item for the Board’s consideration at its meeting on November 18, 2010. Mr. McMillan thanked Mr. McKeever for his review of the draft audit function charter and asked if any committee member had any new comments on this. There were none.

OTHER MATTERS REPORTED TO THE COMMITTEE

Selection Process for Developer for Illinois Research Park

Mr. Michael B. Bass, senior associate vice president for capital programs and real estate services briefed the committee on the process to select a developer for the next phase of development of the Illinois Research Park at Urbana. He reported that the University had received three

responses to the RFP that had been issued, as required by the Illinois Procurement Code, and that the Board of Managers of the Illinois Research Park were working to reach a final decision.

Review of Draft Board Agenda Items Proposed for Presentation to the Board

- Dr. Haberaecker stated that there was one purchase proposed; for electronic equipment for the University libraries to be recommended for approval at the Board's meeting, November 18, 2010.
- Mr. Bass stated that the recommendation for approval of the Master Plan for the Chicago campus would be on the Board's agenda for the November 18, 2010 Board meeting.
- Mr. Bass also indicated that a recommendation to engage an architect/engineer for the Big Broad Band Fiber Optic installation, a \$29.4 million project, was proposed for the agenda of the November 18, 2010 Board meeting. He then described this project and the phases that will follow the hiring of an architect/engineer.
- Mr. Bass next told the committee that there would be a proposal to undertake an energy conservation project for the veterinary medicine complex at Urbana, a \$22.1 million project. He said that planning for the project began in December 2008 and that since then an RFP had been issued, with 12 responses, eight firms had been pre-qualified to perform the work, and four firms had been interviewed for this project which involves an audit of energy utilization. He indicated that the firm of Energy Systems Group of Newburg, Indiana, for a contract of \$21.9 million would be recommended to the Board. He stated that the financing for this contract would be based on the energy savings from the changes that are made.

- Dr. Haberaecker also reported that a recommendation will be made to the Board at the November 18, 2010 meeting to approve an Intergovernmental Agreement between the University and the Illinois Department of Health and Family Services for reimbursement to the University for providing health care to patients in the Division of Specialized Care for Children (DSCC). She said that the source of the payments would be Medicaid funds.

There was no disagreement with any of these potential Board agenda items.

OLD BUSINESS

Mr. McMillan asked if anyone had old business to present for review. There was none.

NEW BUSINESS

Mr. McMillan then asked if there was any new business to present. Mr. Knorr called the committee members' attention to an article reported in *The Chicago Tribune*, November 5, 2010, that recounted the difficulties of a faculty member at Urbana in securing repair services for a special autoclave, equipment used in his research for the U. S. Air Force, which forced him to resort to a more expensive alternative. Mr. Knorr called the committee's attention to the report of the complicated State regulations that have been presented by Senate Bill 51, which became law in July 2010. This article stated that the law was intended to increase transparency in an effort to address corruption in State contracts. An unintended consequence is that the rules for a business to do business with the State are now cumbersome and costly, causing some businesses to eschew pursuing business opportunities with the State. The article pointed out that this consequence has left the faculty researcher featured in the article without the equipment necessary to carry out his research because the firm best qualified to provide the needed repairs to the equipment will not agree to the State's terms for transacting business.

Mr. Knorr cited this case as an example of one of the problematical effects of this new law.

NEXT MEETING OF THE COMMITTEE

Mr. McMillan stated that the next meeting of the committee will be Monday, January 10, 2011, at 1:00 p.m., via video conference.

COMMITTEE MEETING ADJOURNED

There being no further business, Mr. McMillan requested a motion to adjourn the meeting. The motion was made by Ms. Strobel, seconded by Mr. Oliver, and approved unanimously. The committee meeting adjourned at 3:15 p.m.

Respectfully submitted,

Michele M. Thompson
Clerk

Edward L. McMillan
Chair

Eileen B. Cable
Assisting