


APPROVED BY THE
COMMITTEE

SEP 04 2013


SECRETARY OF THE BOARD

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

July 15, 2013

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, July 15, 2013, at 1:00 p.m. in Room 1030, National Center for Supercomputing Applications, 1205 West Clark Street, Urbana. Attendance via videoconference was available in Room 414, Administrative Office Building, 1737 West Polk Street, Chicago; the Hatmaker Room, Room 550, Public Affairs Center, One University Plaza, Springfield; and Room S200A, 1601 Parkview Avenue, College of Medicine, Rockford. 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. Also present were Mr. Michael A. Cunningham, voting student trustee from the Urbana campus, and Mr. Jamaal E. Hollins, student trustee from the Springfield campus. President Robert A. Easter was present.

Also present were Mr. Lester H. McKeever, Jr., treasurer; Dr. Phyllis M. Wise, chancellor, Urbana campus, and vice president, University of Illinois; Dr. Christophe Pierre, vice president for academic affairs; Mr. Walter K. Knorr, vice

president/chief financial officer and comptroller; Mr. Thomas R. Bearrows, University counsel; and Dr. Susan M. Kies, secretary.

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 May 13, 2013. On motion of Mr. Montgomery, seconded by Ms. Strobel, the minutes were approved. There were no "nay" votes.

Mr. McMillan introduced Mr. Cunningham, the new voting student trustee from the Urbana campus, and Mr. Hollins, the new student trustee from the Springfield campus, to the committee.

PRESENTATIONS

External Financial and Compliance Audit Plan for FY13

Mr. McMillan asked Mr. Patrick M. Patterson, controller and senior assistant vice president, to introduce the financial and compliance external audit plan presentation. Mr. Patterson introduced Ms. Jackie Dippel and Ms. Cathy Baumann from KPMG.

Ms. Dippel began the presentation (materials on file with the clerk) by reviewing the audit scope and deliverables for the fiscal year that ended on June 30, 2013. She described objectives and responsibilities, presented audit methodology, and discussed the involvement of other external auditors and a subcontractor firm. Ms. Dippel presented

preliminary risk assessments and the planned audit approach for each, reported on the OMB Circular A-133 Federal single audit, and provided information regarding State compliance attestation and supplemental financial information. She discussed engagement timing, listed new accounting pronouncements, and provided information about KPMG's Audit Committee Institute. A brief discussion was had concerning estimate and approval of fees surrounding the audit.

Mr. Patterson stated that his office will support the work of KPMG and the State's Office of the Auditor General, and will ensure that each of the University Related Organization's audits is proceeding as scheduled.

FY 14 and FY15 Internal Audit Plan

Ms. Julie A. Zemaitis, executive director of University audits, presented information on the FY 14 and FY 15 Internal Audit Plan (materials on file with the clerk). She discussed fiscal control and internal auditing act requirements and IIA standards requirements, and outlined the Office of University Audits organizational structure. Ms. Zemaitis reviewed organizational risks, outlined the high-level focus areas, and described the methodology in developing the audit plan.

Mr. McMillan commented that he and Mr. McKeever had reviewed the plan with Ms. Zemaitis prior to the presentation. Ms. Strobel asked how cybersecurity concerns were being incorporated into the scope of the internal audit, and Ms. Zemaitis outlined current practices.

FY15 Operating and Capital Budget Request

Mr. McMillan then asked Dr. Pierre to provide a presentation on the preliminary fiscal year 2015 budget request (materials on file with the clerk). Dr. Pierre stated that the annual budget request is required by the State, and he reviewed current key issues and important dates related to the budget. He stated that the preliminary budget request of \$82.7 million includes funding for strengthening academic quality, addressing facility operational needs, and considers inflationary and other cost increases. Dr. Pierre then reviewed the preliminary campus capital priority requests and presented a chart that depicted capital appropriations from 2000 to 2014. A brief discussion was had regarding percentage of increase over the fiscal year 2014 request.

REVIEW OF RECOMMENDED BOARD ITEMS FOR THE MEETING OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS ON JULY 25, 2013

Energy Conservation Project, Professional and Construction Services Award and Financing,
Science and Engineering Laboratories Complex, Chicago

At 1:53 p.m., Mr. Robert L. Plankenhorn, director of capital financing, provided information on the energy savings conservation project financing recommendation for the Science and Engineering Laboratories Complex (materials on file with the clerk), the first project of its kind on the Chicago campus. He discussed the project and loan details, as well the bid process and financing team involved. Brief discussion was had regarding pre-pay charges and the guaranteed energy savings agreement. Mr. Montgomery asked about the types of

energy savings involved, and Mr. Michael B. Bass, senior associate vice president for business and finance and deputy comptroller, provided more information. Mr. Bass also provided details on the use of the design-build mode in relation to meeting MAFBE goals; the energy service company involved; and the return on investment in the project.

University of Illinois Health Services Facilities System Revenue Bonds, Series 2013

At 2:06 p.m., Mr. Knorr provided information on the health services facilities system revenue bonds recommendation (materials on file with the clerk). Mr. Knorr commented that the bonds represented long-awaited and critical renovation financing for University Hospital, and included an estimated project amount of \$70.7 million. He provided details of the bonds, security and credit-rating processes, bondholder risks, and financing team. Mr. Knorr reviewed how the notice of change in Medicaid reimbursement rate from the State had affected the timing of the recommended bond issuance.

A brief discussion was had regarding the State's financial concerns and effects on the bonds' interest rate. Mr. Knorr and Mr. William L. Devoney, chief financial officer, University Hospital, provided further information on the change in the Medicaid reimbursement rate and its implications. Dr. Koritz requested more information on College of Medicine tuition as security for bonds, and Mr. Knorr provided background. Mr. McKeever and Mr. Knorr discussed the University's borrowing capacity and rating.

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Capital Projects

Mr. Bass provided information on the recommendation to delegate power to the comptroller to execute a land exchange with the Illinois Medical District Commission. He provided details of the potential transaction, including background, locations and timeline. A brief discussion was had regarding the properties' respective values. Mr. Bass also provided information on the recommendation to renovate restrooms at the Pennsylvania Avenue Residence Halls, Urbana.

Purchase Recommendations

Mr. McMillan then asked Mr. Bass to review the three recommended purchases (materials on file with the clerk). Mr. Bass provided revised information and background on the recommendation to extend service agreements for two solar turbine generators at Abbott Power Plant, Urbana, including a new recommended total of \$11.6 million, and stated that this is a sole-source purchase. Mr. Bass also discussed the purchase of dental supplies for the College of Dentistry, Chicago, and the process of selecting Henry Schein, Inc, the recommended vendor. He then discussed the purchase of spinal surgery supplies for the University of Illinois Hospital and Health Sciences System Department of Surgical Services, and stated that this is a sole-source purchase.

Mr. Bass also explained two emergency purchases that were executed after the last meeting of the Board: \$1.75 million to Medtronic, Inc., for medical supplies and \$2.2 million to address turbine concerns at Abbott Power Plant, Urbana. Mr. Bass commented that

all procurement rules had been followed for this purchase, and a discussion was had with the State oversight entity. He noted that this emergency purchase prompted review of notification procedures, and internal processes were changed as a result.

There were no objections to moving all items listed above forward to the full Board.

PRESENTATIONS, CONTINUED

Investments as of March 31, 2013

Mr. Dean A. Hagan, director of University investments, provided an update on investment performance and implementation. He reviewed capital markets and discussed endowment pool investment performance and policy implementation. Mr. Hagan also updated the committee on the endowment manager search, and reviewed the operating pool and policy and asset delegation.

Rating Agency/Federal and State Legislations and Budget Updates

Mr. Knorr reported that the University was on a 90-day watch, which is related to the State's current financial situation. He stated that the State receivable is at \$180 million as of June 30, 2013. Mr. Knorr also discussed the 2014 budget appropriation, which has been signed by the governor, and the continuing pension issues under review at the State level.

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 Wednesday, September 4, 2013, at 1:00 p.m. He thanked the new student trustees for attending and expressed appreciation for the work of Dr. Avijit Ghosh, senior advisor to the president, on pension reform.

MEETING ADJOURNED

On motion of Mr. Montgomery, seconded by Ms. Strobel, the meeting adjourned at 2:53 p.m. There were no "nay" votes.

Respectfully submitted,



Susan M. Kies
Clerk



Edward L. McMillan
Chair



Aubrie L. Williams
Assistant Clerk