

APPROVED BY THE
COMMITTEE

NOV 04 2013

James M. L.

SECRETARY OF THE BOARD

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

September 4, 2013

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Wednesday, September 4, at 1:01 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. Lester H. McKeever, Jr.; Mr. Edward L. McMillan; Mr. James D. Montgomery¹; 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.

¹ Mr. Montgomery joined the meeting at 1:03 p.m.

Also present were 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 July 15, 2013. On motion of Ms. Strobel, seconded by Mr. Cunningham, the minutes were approved. There were no “nay” votes.

PRESENTATIONS AND BOARD ITEMS

FY14 University Operating Budget Presentation

Mr. McMillan asked Dr. Pierre to discuss the FY14 University Operating Budget (materials on file with the clerk), and stated that this is an agenda item that will come before the Board at its meeting on September 12, 2013. Dr. Pierre stated that the operating budget has increased by 1.2 percent or \$52.3 million – the smallest increase in recent years – and is now at \$4.45 billion (not including payments on behalf). Dr. Pierre discussed the strengths and concerns surrounding the budget, and detailed several key budget factors, including tuition, salary adjustments and State-related factors. He noted that the University has a total of \$204 million in unpaid State vouchers. Dr. Pierre reviewed the operating budget summary, including the effect of tuition funds and the hospital/MSP and auxiliaries on growth. A

discussion was had regarding an increase in payments-on-behalf. Dr. Pierre discussed where funds come from and where they go, creating a total budget of approximately \$5.6 billion. He presented several graphs detailing unrestricted and restricted funds, tax appropriation per student, and payments-on-behalf over time. Dr. Pierre discussed issues going forward in the fiscal year and beyond. Mr. McMillan expressed his appreciation for Dr. Pierre's presentation. A discussion was had regarding future motivations and maneuvers to maximize resources. There were no objections to forwarding this item to the full Board for consideration.

Academic and Administrative Appointments for Contract Year 2013-2014

Mr. McMillan asked Dr. Pierre to review the recommendation for Academic and Administrative Appointments (materials on file with the clerk). Dr. Pierre discussed the University's salary program of 2.75 percent, effective August 16, 2013. He noted that an additional half a percent was allocated for compression, market equity and retention, and that President Easter asked that each person receive a minimum of 0.5-percent salary increase in response to the July 1 increase in health care coverage costs. There were no objections to forwarding this item to the full Board for consideration.

FY15 Operating and Capital Budget Request

Mr. McMillan asked Dr. Pierre to review the FY15 Operating and Capital Budget Request recommendation (materials on file with clerk). Dr. Pierre noted that this presentation was

distilled from the July 2013 presentation, stating that the estimates have been revised and are now approximately \$4 million less than in July. He outlined a request that addressed three main goals and priorities: strengthen academic quality, address facility operating needs, and meet inflationary and other cost increases. Dr. Pierre stated that the total incremental request from the state was \$78.7 million. He also presented a prioritized list of combined capital budget requests, which totaled \$432.6 million. Mr. Knorr detailed the next steps in the process after the request is made. Mr. McMillan also commented on the impact of the deferred maintenance. A brief conversation was had regarding one-time, additional requests listed. There were no objections to forwarding this item to the full Board for consideration.

FY13 Fourth Quarter and Annual Internal Audit Report

Mr. McMillan asked Ms. Julie A. Zemaitis, executive director, University Audits, to provide a presentation on the FY13 Fourth Quarter report and the University Audits annual report for the year ended June 30, 2013 (materials on file with the clerk). Ms. Zemaitis noted that a full report was given to members of the Board. She presented the audit plan completion status for Fiscal Year 2013, noting that 75 percent of planned audits were completed for the fiscal year, compared to the approved office goal of 75 percent. Ms. Zemaitis stated that the office was responsive to management requests during the year, incurring 3,138 actual hours, compared to 1,950 planned; and completed follow-up on all recommendations due for management's implementation during the year. Ms. Zemaitis provided information on deferred audits, special audit requests by management, and follow-up on corrective action. She then

presented information regarding the total number of reports issued, and she provided comparisons from Fiscal Year 2012 to Fiscal Year 2013 concerning hours spent on various types of projects and by campus or area. Ms. Zemaitis also discussed audit productivity and non-personnel expenditures. She then provided an overview of the implementation of audit recommendations for Fiscal Year 2013. Ms. Zemaitis then discussed the risk and priority rating of all open audit recommendations and provided information on aging of audit recommendations. Mr. McMillan expressed his appreciation to Ms. Zemaitis, President Easter and staff on each campus for their work on these projects. A discussion followed regarding outstanding audit recommendations. Mr. McKeever noted that good discussions had been had surrounding each recommendation, and Mr. McMillan expressed his appreciation for Mr. McKeever's participation in the process.

Banking Resolution for PNC Bank, National Association

Mr. McMillan asked Mr. Knorr to discuss the recommendation regarding PNC Bank (materials on file with the clerk). Mr. Knorr provided background information on this item and detailed the bid selection of PNC Bank as the provider of banking services for the University Hospital. There were no objections to forwarding this item to the full Board for consideration.

Purchase Recommendations

Mr. McMillan asked Dr. Heather J. Haberaecker, executive assistant vice president for business and finance, to review the purchase recommendations that will be on the agenda for the meeting of the Board of Trustees on September 12, 2013 (materials on file with the clerk). Dr. Haberaecker provided information regarding the recommendation to purchase a boiler on the Urbana campus, with a project cost of \$3.05 million. She noted that the Board had approved this item at the November 2012 meeting, but it was necessary to rebid the project. Dr. Haberaecker also detailed the sole-source recommended purchases of remote-hosting billing system service (\$3 million) and medical products for cardiac, spinal and orthopedic surgeries (\$24 million) for the University of Illinois Hospital and Health Sciences System, and provided background on each item. Dr. Haberaecker discussed a recommended competitive-bidding process exempt purchase of \$5.88 million for periodical and subscription services for University libraries. Under renewals, Dr. Haberaecker detailed two recommended renewals: temporary information technology resources to extend capabilities on the Urbana campus (\$1.495 million), and for administrative and management of healthcare services on the Chicago campus (\$1.763 million). Dr. Haberaecker noted that the last vendor, Apex Healthcare, Inc., is a certified MAFBE firm. A brief discussion followed regarding renewal options for the cardiac, spinal and orthopedic surgical supplies item. There were no objections to forwarding this item to the full Board for consideration.

Dr. Haberaecker also discussed the Fiscal Year 2013 MAFBE report, which will be delivered to the Board at the September 12, 2013, meeting. She provided statistics

that showed an increase in MAFBE spending for the University, and the Urbana and Chicago campuses, and provided background. Dr. Haberaecker also discussed trends by ethnic category as a result. Mr. Montgomery commented positively on the report summary.

Updates on Federal, State, and University Budgets and Finance Issues

Mr. McMillan asked Mr. Knorr to present information on financial issues (materials on file with the clerk). Mr. Knorr discussed the funds still owed the University by the State. He also reviewed the University's rating downgrade by Moody's to AA3 (negative outlook), which occurred August 9, noting that the State's financial issues contributed to the move. Mr. Knorr noted that the hospital was also downgraded, from A1 to A2. In addition, Mr. Knorr stated that the hospital bonds were sold August 22, with an interest rate of 6 percent, which was more than anticipated in July, and he provided reasons for the increase and details on the process going forward. Mr. Knorr commented on the end of the State's fiscal year and the work of the State pension committee, and a brief discussion followed. Mr. McMillan pointed out reference material for the committee to consider reviewing.

MOTION FOR EXECUTIVE SESSION

At 2:13 p.m., Mr. McMillan asked for a motion for an executive session to consider a meeting between internal audit and the committee where the discussion involves internal control matters. The motion was made by Mr. Montgomery, seconded by Dr. Koritz, and approved. There were no "nay" votes.

EXECUTIVE SESSION

Material redacted pursuant to the Illinois Open Meetings Act (5 ILCS 120/2.06d)

EXECUTIVE SESSION ADJOURNED

At 2:29 p.m., the executive session was adjourned, and the committee resumed its regular meeting.

REGULAR MEETING RESUMED

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 Monday, November 4, at 1:00 p.m. He complimented Dr. Pierre on the financial plan preparations.

MEETING ADJOURNED

On motion of Mr. Montgomery, seconded by Ms. Strobel, the meeting adjourned at 2:30 p.m. There were no "nay" votes.

Respectfully submitted,



Susan M. Kies
Clerk



Edward L. McMillan
Chair



Aubrie L. Williams
Assistant Clerk

