


APPROVED BY THE
COMMITTEE

SEP 03 2014


SECRETARY OF THE BOARD

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

JULY 14, 2014

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, July 14, 2014, 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 Building, 833 South Wood Street, Chicago campus, Chicago, Illinois; the Hatmaker Room, Room 550, Public Affairs Center, One University Plaza, Springfield campus, Springfield, Illinois; and Room S200A, 1601 Parkview Avenue, College of Medicine, Rockford, Illinois.

Trustee Edward L. McMillan, chair of the committee, convened the meeting¹. The following committee members were present: Dr. Timothy N. Koritz; Mr. Lester H. McKeever, Jr.; Mr. Edward L. McMillan; Mr. James D. Montgomery; Ms. Pamela B. Strobel.

Also present were Dr. Phyllis M. Wise, chancellor, Urbana, and vice president, University of Illinois; Mr. Walter K. Knorr, comptroller (and vice president/chief financial officer); Dr. Christophe Pierre, vice president for academic affairs; Dr. Lawrence B. Schook, vice president for research; Mr. Thomas R. Bearrows,

¹ Roll call was taken at 1:42 p.m.

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 May 5, 2014. On motion of Mr. Montgomery, seconded by Dr. Koritz, 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 24, 2014

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 24, 2014. All proposed agenda items discussed at the meeting are on file with the clerk.

KPMG/Auditor General Audit Plan for Fiscal Year 2014
Financial and Compliance Audit

Mr. McMillan asked Mr. Patrick M. Patterson, controller and senior assistant vice president, to introduce the financial and compliance audit plan presentation. Mr. Patterson introduced Ms. Jackie Dippel 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, 2014. She explained that KPMG is serving as special assistant auditors for the Illinois Auditor

General and will be performing the external audit for Fiscal Year 2014. She presented the engagement team, audit responsibilities, and audit methodology, and she discussed the involvement of other external auditors and a subcontractor firm. Ms. Dippel reported on preliminary risk assessments and the planned audit approach for each, discussed the OMB Circular A-133 federal single audit, and provided information regarding State compliance attestation and supplemental financial information. She presented engagement timing, listed new accounting pronouncements, and provided information about KPMG's Audit Committee Institute. Brief discussion followed concerning the relationship between external and internal audits and some aspects of the federal single audit.

Update on Illinois' Economic and Fiscal Challenges and Responses

At 1:18 p.m., Mr. McMillan asked Dr. David F. Merriman, professor, Institute of Government and Public Affairs (IGPA), to provide a presentation on the State's economic and fiscal challenges and responses (materials on file with the clerk). Dr. Merriman reviewed recent and upcoming IGPA activities on fiscal topics and discussed the unemployment rate in Illinois compared to the Midwest and the rest of the country. He reported on the decreased unemployment rate in Illinois and indicated that this is a result of a fall in the labor force, noting that this is disturbing from a fiscal perspective. Dr. Merriman then discussed weak growth of the gross domestic product in Illinois. Next, he commented on the Fiscal Year 2015 State budget and the impact of the potential phasing out of higher income tax rates, and he stated that Governor Quinn's forecasted deficit by the end of Fiscal Year 2017 includes only the general fund. Dr. Merriman

discussed the impact of Kanerva vs. Weems, which concerns health-care coverage for retirees, and whether this is an indicator of the upcoming ruling on recent pension legislation. He presented budget gap projections with and without the phasing out of higher tax rates and showed the impact of changes to pension laws on these projections. Lastly, Dr. Merriman discussed Illinois' bond rating and said this costs the State in interest and reputation.

Discussion followed regarding measures that may be taken to address the State's fiscal situation, and Ms. Strobel shared the opinions that have been expressed by Mr. Tyrone C. Fahner, president of the Civic Committee of The Commercial Club of Chicago, regarding upcoming decisions regarding pension legislation. Committee members then discussed the impact of the State's bond rating and its impact on the University, and Mr. Knorr reminded the committee that the pension obligation is going to be added to the University's balance sheet. Mr. McMillan thanked Dr. Merriman for the presentation.

Fiscal Year 2016 Operating and Capital Budget Request

Mr. McMillan then asked Dr. Pierre to provide a presentation on the preliminary Fiscal Year 2016 budget request (materials on file with the clerk). Dr. Pierre explained that the University is required to make a budget request each year and indicated that despite the recent history of flat or decreased funding, it is important to communicate the University's needs. He reviewed current key issues and important dates related to the budget. He reported that the proposed preliminary operating budget request for Fiscal Year 2016 reflects an increase

of 3.8 percent from Fiscal Year 2015 and totals almost \$68.0 million. Dr. Pierre then reviewed the preliminary Fiscal Year 2016 campus capital priority request and presented University capital appropriations from Fiscal Year 2000-2015, noting that there was no capital appropriation from Fiscal Year 2005 through 2015, with the exception of Fiscal Year 2010. Committee members briefly discussed the request for support for additional Medicaid patient activity, and Mr. Knorr stated that assistance is needed in this area.

Capital and Real Estate Items

At 1:56 p.m., Mr. McMillan asked Mr. Michael B. Bass, senior associate vice president and deputy comptroller, to report on capital and real estate items appearing on the Board's agenda at its July 24, 2014, meeting.

Mr. Bass commented on the item recommending the award of contracts for renovation at the Natural History Building, Urbana. He briefly reviewed the history of the project to modernize and repurpose the Natural History Building at Urbana and said that the Board approved a budget increase at its March 2014 meeting. Mr. Bass reported on the recommendation to award contracts for renovation for the first phase of the project, and he outlined the work to be completed during this phase. He also commented on the bidding process, selected vendors, and Minority and Female Business Enterprise (MAFBE) participation.

Mr. Bass then discussed the recommendation to increase the budget for renovation and addition at the State Farm Center, Urbana. He provided information regarding the recommended budget increase for additional work to be completed as part of

the State Farm Center renovation and addition project. Mr. Bass reported that the proposed budget increase is \$4.5 million.

Next, Mr. Bass reviewed the recommendation to employ an architect/engineer for required professional services for the renovation of the Everitt Laboratory at Urbana. He provided some information about the project and the services of the architect/engineer.

Mr. Bass then discussed the recommendation to employ an energy service company (ESCO) for required professional services associated with the energy conservation project at five College of Engineering buildings at Urbana. He provided some background on this project and said that the ESCO's fee will not exceed \$1.4 million.

Mr. Bass commented on the recommendation to award a contract for the installation of synthetic turf on two existing softball/soccer recreation fields on Chicago's south campus.

Mr. Bass then reviewed the item that recommends the employment of an engineer acting as a commissioning agent for required professional services for the Advanced Chemical Technology Building project, Chicago, and he briefly reviewed the project.

Next, Mr. Bass discussed the recommendation to delegate authority to the comptroller to approve an intergovernmental agreement to affect the exchange of University-owned land on the Chicago campus for vacant land owned by the Illinois Medical District Commission. He provided some history on this, as well as additional details regarding the exchange, noting that this is an exchange of title.

Fiscal Year 2013 Compliance Audit Results

At 2:08 p.m., Mr. McMillan asked Ms. Ginger L. Velazquez, interim assistant vice president for business and finance, to provide a presentation on the Fiscal Year 2013 State and federal compliance audit (materials on file with the clerk). Ms. Velazquez stated that the Illinois Office of the Auditor General contracts with KPMG to conduct annual audits of the University, and she described the types of audits that are conducted. She reviewed details of the federal findings and reported that the University received unmodified opinions for all major programs. She also provided information regarding the cost for federal findings, which she said totaled \$29,988 and was related to student financial aid. Ms. Velazquez then discussed State compliance findings and said the University is committed to resolving all findings. Brief discussion followed, and Mr. Knorr commented on the timeline for audit approval by the legislative audit commission.

March 31, 2014, Investment Report

At 2:13 p.m., Mr. McMillan asked Mr. Dean A. Hagan, director of University investments, to report on investment performance and provide a program update (materials on file with the clerk). Mr. Hagan introduced representatives from Hewitt EnnisKnupp, Inc., in attendance at the meeting and began his presentation by providing a capital market review as of March 31, 2014. Mr. Hagan discussed endowment pool performance and presented endowment pool peer rankings, noting the effective asset allocation pool for the five and 10-year time frame. He then reported on endowment

asset pool allocation and compared the actual asset allocation to the long-term asset allocation plan. Next, Mr. Hagan provided an update on the emerging manager of managers program and referred to the recommendation to hire Attucks Asset Management, LLC, for this role.

Discussion followed regarding the one-year performance of the endowment pool, and Mr. Hagan discussed possible causes for this to fall below the benchmark. Committee members also discussed the time frame for the transition to move from the current asset pool allocation to the long-term asset pool allocation plan. Mr. Hagan provided additional information regarding Attucks Asset Management, LLC, and Mr. McKeever discussed a relationship between his family and the company's owner. He said he wanted to inform the committee to avoid any perception of impropriety.

Internal Audit Plan Fiscal Year 2015 and Fiscal Year 2016

At 2:26 p.m., Mr. McMillan invited Ms. Julie A. Zemaitis, executive director of University audits, to present the two-year audit plan for Fiscal Years 2015 and 2016 (materials on file with the clerk). Ms. Zemaitis reviewed the mission of the Office of University Audits and said that a two-year plan is required by State statute. She reviewed 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 and distribution of hours for strategic objectives areas, and she reviewed the distribution of planned hours by campus or area.

Ms. Zemaitis then showed the risks or requests not included in the two-year audit plan due to staff resource constraints, and she told the committee that the plan is flexible to allow for response to changes throughout the year.

Mr. McKeever expressed concern regarding areas and issues that cannot be addressed due to resources and emphasized the importance of the role of internal auditing. Mr. McMillan and Ms. Strobel agreed, and discussion followed regarding increased efficiencies at the unit and campus level, including the development of shared service centers. Ms. Zemaitis said these changes may have a positive impact on resources needed for internal audits.

Legislative Actions and State Budget

Mr. Knorr commented that the fiscal year ended with \$150.0 million owed to the University by the State, noting that this is the lowest year-end receivable in the past five years. He referred to a Moody's report that highlighted the University's situation and mentioned the unfunded pension liability.

NEW BUSINESS

Mr. McMillan announced that the next meeting is scheduled for Wednesday, September 3, 2014, at 1:00 p.m.

MEETING ADJOURNED

On motion of Mr. Montgomery, seconded by Ms. Strobel, the meeting adjourned at 2:45 p.m. There were no "nay" votes.

Respectfully submitted,



SUSAN M. KIES
Clerk



EDWARD L. MCMILLAN
Chair



EILEEN B. CABLE
Assistant Clerk