

MAY 01 2017

*Aledin M. Williams*  
SECRETARY OF THE BOARD

MEETING OF THE AUDIT, BUDGET, FINANCE, AND FACILITIES COMMITTEE  
OF THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ILLINOIS  
MARCH 6, 2017

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, March 6, 2017, at 1:00 p.m., in Room 270, College of Pharmacy, 833 South Wood 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 clerk to call the roll. The following committee members were present: Mr. Ramón Cepeda, Mr. Edward L. McMillan, Mr. James D. Montgomery. Mr. Collin T. Schumock, voting student trustee, Urbana, and Mr. Nathan C. Hoffman, student trustee, Springfield, were present. Mr. Lester H. McKeever Jr., treasurer, was absent. President Timothy L. Killeen was in attendance.

Also in attendance were: Dr. Robert J. Jones, chancellor, University of Illinois at Urbana-Champaign, and vice president, University of Illinois; Dr. Susan J. Koch, chancellor, University of Illinois at Springfield, and vice president, University of Illinois; Mr. Walter K. Knorr, comptroller (and vice president/chief financial officer); 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 welcomed everyone to the meeting and asked if there were any comments or corrections to the minutes from the meeting held January 9, 2017. On motion of Mr. Montgomery, seconded by Mr. McMillan, 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 15, 2017

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 15, 2017. All proposed agenda items discussed at the meeting are on file with the clerk.

Student Health Insurance Rates – All Campuses, Academic Year 2017-2018

Mr. Cepeda asked Dr. Marilyn M. M. Marshall, assistant vice president for academic affairs, to report on the recommendation to approve student health insurance rates for Urbana, Chicago, and Springfield, Academic Year 2017-2018. Dr. Marshall reported that the recommendation includes a 24.1 percent increase for undergraduate students and a 24.2 percent increase for graduate students for the cost of student health insurance at Urbana. She said that there is no recommended increase at Chicago and a decrease in the

cost of student health insurance at Springfield. Dr. Marshall described the cost drivers impacting the cost of student health insurance at Urbana and emphasized the increase in claims and claims cost in the previous year. She also noted that while students at Chicago and Springfield experienced increases in the cost of student health insurance in recent years, the cost for students at Urbana had not changed. Dr. Marshall said that negotiations lessened the increase, and she told the committee that it is not an ideal time to negotiate a new contract due to uncertainty surrounding the Affordable Care Act. She reported that the cost of student health insurance at the University is competitive with peer institutions. Dr. Marshall then reviewed the overall cost of medical coverage, including the mandatory health service fee, and she thanked Ms. P.J. Kale, executive director of risk management; Dr. Peter J. Newman, associate vice president of treasury operations; and other University system staff for their hard work, expertise, and input on this recommendation.

#### Mid-Year Salary Changes, Academic Personnel, Academic Year 2016-2017

Next, Mr. Cepeda asked Ms. Jami M. Painter, assistant vice president for human resources, to report on the recommendation to approve mid-year salary changes. Ms. Painter explained that this is not a reappointment and is reflective only of a change in salary. Mr. Cepeda inquired about the average increase, and Ms. Painter indicated that the average increase is 2.2 percent and will be received by 52 percent of employees.

## Capital and Real Estate Items

Mr. Cepeda then asked Mr. Michael B. Bass, senior associate vice president and deputy comptroller, to report on capital and real estate items. Mr. Bass first discussed the recommendation to name the design center facility at Urbana as the Siebel Center for Design in recognition of the Siebel's generous gift and to memorialize the innovative facility.

Mr. Bass then introduced Mr. Kalman Nagy, Mr. Tom Seymour, and Ms. Jennifer Betancourt from Dewberry Architects to provide a design presentation on the College of Engineering Modular Building at Chicago. They reviewed key project parameters and the project site and gave an overview of the site plan. They showed various floorplans and views of the facades, main entry, and courtyard. They discussed sustainability considerations and indicated that the team is pursuing LEED Gold certification. Brief discussion followed regarding the proposed design and probability of achieving LEED Gold status. Mr. Bass then presented the recommendation to approve the design and professional services agreement for the Modular Design Building, College of Engineering, Chicago. He reported on funding and prior Board action approving the project, and he reviewed Minority and Female Business Enterprise (MAFBE) participation rates.

Next, Mr. Bass discussed the recommendation to approve a construction contract for classroom renovation at Turner Hall, Urbana. He gave an overview of the budget, sources of funding, and prior Board action approving the project. Mr. McMillan



clarified that this project was underway prior to the arrival of the new chancellor at Urbana and new dean of the College of Agriculture, Consumer, and Environmental Sciences.

Mr. Bass then reported on the recommendation to approve the construction contract for the slate roof replacement at the English Building, Urbana. He referred to prior Board approval of the project and described the project and location of the building. He described the scope of the work and reported on MAFBE and Women's Business Enterprise (WBE) participation rates.

Next, Mr. Bass provided information on the recommendation to approve the construction contract for the replacement of multiple roofs at Urbana. He listed the buildings in need of roof replacement and described aspects of the contract. He said that funding is available from the Academic Facilities Maintenance Fund Assessment fund.

Mr. Bass then discussed the recommendation to award a construction contract for heating, ventilation, and air conditioning piping and exhaust system upgrades at Oglesby Hall, Urbana. He described the project location and aspects of the work to be completed, and he told the committee that the original heating, ventilation, and air conditioning equipment is at least 60 years old. He said this work will ensure reliability of these systems. He also reported on MAFBE participation rates.

Mr. Bass then commented on the recommendation to increase the project budget for renovation and expansion, Civil Engineering Hydrosystems Laboratory, Urbana, and said that the conceptualization study revealed extreme challenges in achieving the desired program. He reported that an option from the study proposes an

expansion and renovation project that will demolish 19,000 square feet of existing space while providing 45,000 new and 4,000 renovated gross square feet of research and teaching space and associated support spaces. He indicated that an additional \$19,987,500 is required to complete the project, and he discussed the sources of funding. Discussion followed regarding the challenges associated with the original proposal and the expectation of what could be achieved within the original project budget.

Next, Mr. Bass provided information on the recommendation to increase the project budget and award a construction contract for elevator upgrades at multiple buildings at Urbana. He listed the scope of work, estimated cost, and funding source for the project.

Mr. Bass then commented on the recommendation to employ a construction manager for the renovation and addition of the dining facility at the Illinois Street Residence Hall at Urbana. He discussed the location and importance of this complex and commented on the size of the dining hall, stating that it will be one of the largest at the University. He also discussed the recommendation to employ Turner Construction Company for construction management services, and he reported on MAFBE participation rates.

Mr. Bass then provided aggregate MAFBE participation rates and gave additional details regarding the participation rates for veterans, women, and specific demographic groups.

## Purchase Recommendations

Mr. Cepeda then asked Mr. Richard D. Elmore, assistant vice president for procurement services, to comment on purchase recommendations. Mr. Elmore provided information on the recommended purchase of spinal implant systems from K2M Group Holding, Inc. for use by orthopedic and neurological spine surgeons at UI Health. He explained that this is a justified sole-source purchase because these items are patented and the vendor is the only manufacturer. He stated that this technology allows surgeons to use spinal implants uniquely fitted to a patient's anatomy, and he referred to an anticipated increase in the patient census for these types of surgeries.

Next, Mr. Elmore discussed the recommended purchase of an accident and illness insurance plan for students at Springfield from Academic Health Plans/Blue Cross Blue Shield. He told the committee that negotiations resulted in decreased cost.

Mr. Elmore then reported on recommended renewals, beginning with a renewal option for the purchase of coal, including byproduct waste disposal services at Urbana. He referred to negotiations with the vendor that resulted in a price decrease and said that the cost is not to exceed \$9.0 million. Mr. Montgomery and Mr. Elmore briefly discussed the use of coal and student protests associated with this, and Mr. Elmore indicated that the University is currently relying more heavily on natural gas, which he said is currently cheaper and cleaner than coal.

Next, Mr. Elmore discussed the recommended renewal for the purchase of maintenance and repair work at the Utilities Production Plants at Urbana and said this

will exercise the fourth of five renewal options. He told the committee these services will be used in an as-needed basis at a cost not to exceed \$12,329,729.

Mr. Elmore then provided information on a recommended renewal option for student health insurance and routine administrative services from United Healthcare Services, Inc., for student at Urbana. He said this is the second of eight renewal options and will cost a maximum of \$29,000,000. He reported that these costs are paid each semester.

Lastly, Mr. Elmore reported on the recommended renewal option for the purchase of temporary personnel services required for the University of Illinois at Chicago and the University of Illinois Hospital and Health Sciences System. He said these would be purchased on an as-needed basis at an amount not to exceed \$4,747,172.

#### Endowment Investment Performance and Program Update

Next, Mr. Cepeda asked Dr. Newman to provide an endowment investment performance and program update (materials on file with the clerk). Dr. Newman gave a capital markets review as of December 31, 2016, and presented the endowment pool performance and peer rankings. He showed the NACUBO-Commonfund Study of Endowments, which he said showed that University endowment pool performance compared favorably to its peer group across all time periods and exceeded the survey's top quartile one-, five-, and 10-year returns. He discussed asset allocation of the endowment pool, and he gave an asset allocation implementation update and described



the BlackRock Multi-Alternative Opportunities Fund. He also provided an investment manager update.

Discussion followed regarding the endowment pool performance during the three-year period and issues that impact the University's endowment comparison to peer institutions. Dr. Newman also discussed the performance of certain firms and managers and described the evaluation process.

### Fiscal Year 2016 Financial Audit

Mr. Cepeda then asked Mr. Patrick M. Patterson, controller and senior assistant vice president, to report on the Fiscal Year 2016 financial audit (materials on file with the clerk). Mr. Patterson said that the University received an unmodified audit opinion on financial statements with three University-wide findings and no material weaknesses. He described the findings and provided financial statement highlights. Mr. Patterson also provided details regarding a subsequent event involving the Illinois Department of Healthcare and Family Services (IDHFS). He explained that the U.S. Department of Health and Human Services alleges \$140.0 million in overpayments to IDHFS associated with the University of Illinois Hospital, and he told the committee that IDHFS is vigorously appealing.

Brief discussion followed regarding the alleged overpayment. Committee members also commented on issues surrounding P-Cards that were identified in the audit.

### Summary of Internal Audit Activity – Quarter Ended December 31, 2016

At 2:21 p.m., Mr. Cepeda asked Ms. Julie A. Zemaitis, executive director of University audits, to provide a summary of internal audit activity for the quarter ended December 31, 2016 (materials on file with the clerk). Ms. Zemaitis reviewed the Fiscal Year 2017 audit plan completion status and referred to a staffing shortage in the Office of University Audits and the addition of 14 new projects, noting that the office is behind schedule on planned audits. She discussed the implementation of audit recommendations and year to date audit report findings through December 31, 2016. Next, Ms. Zemaitis presented the aging of outstanding recommendations by management's original implementation date and showed the number of recommendations with management's original implementation dates of 2016 and prior. She also gave an update on high risk audit recommendations with management's original implementation dates of 2015 and prior.

Committee members discussed the presentation, and Mr. Montgomery inquired about staffing levels in the Office of University Audits. Mr. McMillan commented that this is an area of critical importance. Ms. Painter added that the hiring freeze has had an impact throughout the University, with a 15 percent decrease in staff in the system offices.

### Internal Audit Charter Amendments

Ms. Zemaitis then discussed proposed amendments to the internal audit charter that require the approval of the Audit, Budget, Finance, and Facilities Committee. She

outlined components of the charter and referred to the core principles for the professional practice for internal auditing. She also described the process by which the Office of University Audits is audited.

Mr. Cepeda asked for a motion to approve the internal charter amendments. On motion of Mr. Montgomery, seconded by Mr. Schumock, the internal audit charter amendments were approved.

### Legislative, Budget, and Financial Updates

Mr. Cepeda asked Mr. Knorr to provide legislative, budget, and financial updates. Mr. Knorr referred to the State budget stalemate and the Governor's Fiscal Year 2018 budget recommendations. He reported that the University of Illinois Foundation agreed to another 4 percent spending rate against the endowment, and he said the financial and compliance audits have been issued. Mr. Knorr referred to an upcoming appearance before the Legislative Audit Commission and said that appropriation hearings are scheduled for March and April. He also commented on University credit ratings, which he said are unchanged, and he told the committee that the hospital's credit rating is under review by Standard and Poor's. Mr. Knorr gave an update on a Wells notice from the U.S. Securities and Exchange Commission (SEC) and said the SEC had determined there was no enforcement action against the University in connection with the Municipalities Continuing Disclosure Initiative. Brief discussion followed regarding the anticipated reduction in State support.

OLD BUSINESS

There was no business presented under this aegis.

NEW BUSINESS

Mr. Cepeda announced that the next meeting of this committee is scheduled for Monday, May 1, 2017, at 1:00 p.m.

MEETING ADJOURNED

On motion of Mr. Montgomery, seconded by Mr. Schumock, the meeting adjourned at 2:43 p.m. There were no “nay” votes.

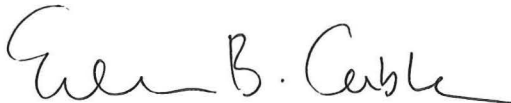
Respectfully submitted,



DEDRA M. WILLIAMS  
*Clerk*



RAMÓN CEPEDA  
*Chair*



EILEEN B. CABLE  
*Assistant Clerk*