

APPROVED BY THE
COMMITTEE

SEP 17 2018


SECRETARY OF THE BOARD

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

JULY 9, 2018

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, July 9, 2018, at 3:00 p.m., in Room 414, Administrative Office Building, 1737 West Polk 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 secretary to call the roll. The following committee members were present: Mr. Ramón Cepeda, Mr. Donald J. Edwards, Dr. Stuart C. King, Mr. James D. Montgomery. Mr. Lester H. McKeever Jr., treasurer, was absent. Mr. Trayshawn M. W. Mitchell, student trustee, Urbana, was absent. Mr. Sanford E. Perl, trustee, attended the meeting as a guest. President Timothy L. Killeen was in attendance.

Also present were: Dr. Barbara J. Wilson, executive vice president and vice president for academic affairs; Dr. Robert J. Jones, chancellor, University of Illinois at Urbana-Champaign, and vice president, University of Illinois; Dr. Avijit Ghosh, comptroller (and vice president/chief financial officer) designate; 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 May 7, 2018. On motion of Mr. Montgomery, seconded by Mr. Edwards, 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 19, 2018

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 July 19, 2018. All proposed agenda items discussed at the meeting are on file with the secretary.

Revise Dollar Limit for Settlement Payments Pursuant
to the System's Risk Management Program

Mr. Cepeda asked Dr. Peter J. Newman, associate vice president for treasury operations, to discuss the recommendation to revise the dollar limit for settlement payments pursuant to the system's risk management program. Dr. Newman presented an overview of the risk management program and described the types of claims that are covered (materials on file with the secretary). He showed an analysis performed by the Office of Risk

Management of data for settlements approved by the Board from 2008 through 2018 and said the resulting recommendation is to increase settlement authority delegated to the comptroller from \$250,000 to \$1.0 million. He noted that the comptroller will provide periodic reporting to the Board on settlements above \$250,000 and at or below \$1.0 million.

Mr. Edwards asked if medical malpractice claims are included in this program, and Dr. Newman confirmed that they are. Dr. King commended those involved in the work leading to this recommendation and asked what triggers would ensure that necessary information be shared with the Board. President Killeen responded that information pertaining to settlements that may have an impact on public relations or relationships would be shared with the Board, and Mr. Edwards added that this topic may be better addressed by another committee, since the issue has ramifications outside this recommendation. Mr. Montgomery and Mr. Bearrows briefly discussed the impact of this proposed change on settlement negotiations. Dr. King noted that he is in favor of the recommendation.

Capital and Real Estate Items

Next, Mr. Cepeda asked Mr. Michael B. Bass, senior associate vice president and deputy comptroller, to report on capital and real estate items. Mr. Bass first commented on the recommendation to approve the design for Demirjian Park Stadium in the Division of Intercollegiate Athletics, Urbana. Mr. Bass gave an overview of the project and it will be

paid for with gift and institutional funds. He then invited Mr. Bill Browne from RATIO Architects to give a design presentation (materials on file with the secretary).

Mr. Browne described aspects of the project and showed its location within the campus master plan. He presented the site plan and showed the first and concourse floor plans and several building sections and elevations. Mr. Browne also showed aerial views and the perspective from the field and concourse. Mr. Cepeda inquired about the size of the facility, and Mr. Browne said it is sized to meet the typical number of patrons attending games but can also accommodate larger events.

Next, Mr. Bass provided information on the recommendation to approve an increase in the budget for the Electrical and Computer Engineering project at Urbana. He gave a history of the project and prior budget increases and explained that in July 2017, this project was combined with a separate project to install solar panels on the roof. Mr. Bass reported that the project was delayed due to a design error that prevented installation of the photovoltaic system. He explained that additional funds are needed to remediate the design error and to support the installation of solar panels and structural support. Mr. Bass said it is necessary to increase the project budget by \$725,375, and he reported that the Capital Development Board is also contributing \$1,466,000 for remediation of the design error. Brief discussion followed regarding the responsibility to pay for the remediation of the design error.

Purchase Recommendations

Mr. Cepeda then asked Ms. Gloria Keeley, assistant vice president for administrative services, to report on purchase recommendations. Ms. Keeley first provided information on the recommended purchase of maintenance of Banner Baseline ERP software for Administrative Information Technology Services (AITS) at Urbana. She explained these are the final payments of this sole-source purchase and that sole-source procurement procedures were followed in accordance with the Illinois Procurement Code.

Next, Ms. Keeley provided information on the recommended purchase of TAVR Evolut Valves used for transcatheter aortic valve replacement for the University of Illinois Hospital and Health Sciences System at Chicago. She said that a new surgeon was recently hired who anticipates doing approximately four TAVR procedures each month. Ms. Keeley provided additional information about candidates for the procedure and explained that this purchase is exempt from competitive selection procedures in accordance with the Illinois Procurement Code.

Ms. Keeley then discussed the recommended purchase of craniomaxillofacial/thoracic plating systems that are used in a variety of specialty surgical applications at the University of Illinois Hospital and Health Sciences System. She provided some information about the Biomet Microfixation plate system and said this purchase is exempt from competitive selection procedures in accordance with the Illinois Procurement Code.

Ms. Keeley reported on the recommended purchase of specialized radiation oncology services from the University of Chicago for the University of Illinois Hospital and Health Sciences System, Department of Radiation Oncology. She said the University of Illinois Hospital and Health Sciences System does not employ radiation oncology physicians, PhD-level physicists, or radiation oncology resident staff in the Department of Radiation Oncology. Ms. Keeley said these services have been provided by the University of Chicago since 2004, and she stated that this purchase is exempt from competitive selection procedures in accordance with the Illinois Procurement Code.

Ms. Keeley then discussed the recommended purchase of spinal cord stimulator and drug pump surgical implants for the University of Illinois Hospital and Health Sciences System on behalf of Surgical Services. She discussed neuromodulation and its application as a medical therapy that targets the nervous system for restoration of function, relief of pain, or control of symptoms following surgery or injury. Ms. Keeley reported that this purchase is exempt from competitive selection procedures in accordance with the Illinois Procurement Code and that the pricing is considered reasonable and acceptable based on the historical cost. She said negotiations resulted in discounted pricing of 50 percent off the list price.

Mr. Edwards asked if the recommended purchases for the University of Illinois Hospital are included in a budget, and Mr. Michael B. Zenn, chief executive officer, University of Illinois Hospital, indicated these are included in the operating budget as supply costs. Dr. King inquired about the recommended purchase of spinal cord stimulators and asked whether it would be possible to purchase alternative

stimulators as new technologies are available. Mr. Zenn stated that this purchase does not preclude the purchase of spinal cord stimulators from another vendor.

There were no objections to the agenda items listed above going forward to the full Board for voting.

University of Illinois System Endowment Pool Asset Allocation and Portfolio Structure

Next, Mr. Cepeda asked Dr. Newman to give a presentation on the University of Illinois System Endowment Pool Asset Allocation and Portfolio Structure (materials on file with the secretary). Mr. Edwards asked for clarification on the type of funds being discussed, and Dr. Ghosh explained the funds are University of Illinois system endowment pool funds managed by the University, which are separate than those managed by the University of Illinois Foundation. Dr. Newman introduced Mr. Robert P. Van Den Brink, CFA and senior vice president, and Ms. Nicola M. da Roza, CFA and vice president, from FEG investment advisors, to give a presentation.

Mr. Van Den Brink gave an overview of portfolio construction philosophy and approach and showed the results of an endowment pool strategic review. He discussed the return goal and referred to the NACUBO-Commonfund study and showed a proposed endowment asset allocation matrix, noting a small recommended change would ensure greater underlying flexibility. Mr. Van Den Brink presented a pie chart reflecting current long term targets and proposed targets for asset allocation and showed a liquidity

matrix reflecting a modest decrease in liquidity with the expectation of higher returns in private capital.

Mr. Edwards inquired about the responsibility of this committee to recommend changes to the asset allocation policy to the full Board and recommended the establishment of an investment committee or subcommittee. He expressed concern regarding the large percentage allocated to global equities. Dr. Newman explained these are broad ranges with the goal of having the ability to respond to changes in the market, and he told the committee that the team manages to the target goals. Mr. Edwards commended them for their work but recommended a smaller range and policy that reflects the target goals. Mr. Cepeda asked when this policy was last reviewed, and Dr. Newman explained that it is reviewed periodically but was not formally reviewed since 2011.

Independent External Audit Services Plan

Mr. Cepeda then asked Mr. Bass to give a presentation on the independent external audit services plan (materials on file with the secretary). Mr. Bass reported that CliftonLarsonAllen (CLA) is serving its fourth year as special assistant to the Office of the Auditor General. He stated that Mr. Jeff Bonick is serving as CLA principal over the University's audit engagement and Mr. Chris Suda is the CLA principal assisting. Mr. Bass then introduced Mr. Suda and asked him to provide a presentation. Mr. Suda presented the engagement scope and deliverables for the year ended June 30, 2018, showed the engagement timeline, reviewed members of the engagement team, and

described the responsibilities of the Audit, Budget, Finance, and Facilities Committee. He then discussed University support for the audit, and he thanked the committee for their time.

Two-Year Internal Audit Plan for Fiscal Years 2019-2020

Next, Mr. Cepeda asked Ms. Julie A. Zemaitis, executive director of University audits, to give a presentation on the two-year internal audit plan for Fiscal Years 2019 and 2020. Ms. Zemaitis reviewed the fiscal control and internal auditing act, the standards from the Institute of Internal Auditors, and the University's internal audit charter and presented the key elements of the audit plan development process. She showed key areas from data analytics in risk assessment, and she showed a summary of planned hours for Fiscal Years 2019 and 2020 compared to those from Fiscal Year 2018. Ms. Zemaitis then showed a graph mapping the two-year audit plan to risk and to the Strategic Framework. She said ongoing monitoring of risks will take place throughout the year, and the plan will be adjusted if needed. Mr. Perl inquired about the number of staff in the Office of University Audits and asked about its structure and processes. Ms. Zemaitis provided information about the staff at each university and the reporting lines for the office, and she explained that the frequency of audits of particular units is risk based, which means that some units are audited more frequently than others.

OLD BUSINESS

Mr. Cepeda asked Dr. Andreas C. Cangellaris, vice chancellor for academic affairs and provost, Urbana, to give an update on the Carle Illinois College of Medicine at Urbana. Dr. Cangellaris referred to the recent white coat ceremony at Krannert Center for the Performing Arts and said there was much enthusiasm, particularly among students. He said some donors attended the ceremony, and he expressed appreciation for the donors' support of this new, unique, engineering-based College of Medicine. Dr. Cangellaris said the 10-year budget is being updated to reflect the change in fundraising, and he told the committee that a major gift officer was hired. He provided additional information on the college's finances and said that additional funding from unrestricted gifts is covering any shortfall from the initial endowment. Dr. Cangellaris said he is confident the college will meet its fundraising goal. Dr. King thanked Dr. Cangellaris for bringing this information to the committee in response to a request at the last meeting of the committee.

Mr. Edwards inquired about a response to a question he asked at the last meeting of this committee regarding a recommended purchase for temporary personnel at Chicago and the number of temporary personnel that are employed there, and Ms. Keeley explained that this is being investigated by human resources. She said she hopes to have additional information in advance of the Board meeting in September.

NEW BUSINESS

Mr. Cepeda asked the committee if there was any new business to discuss. Dr. Ghosh referred to the passing of the State budget and the University's appropriation and said that he will provide a report to the full Board at its July 19, 2018, meeting.

Mr. Cepeda announced that the next meeting of this committee is scheduled for Monday, September 17, 2018, at 3:00 p.m.

MEETING ADJOURNED

On motion of Mr. Edwards, seconded by Mr. Montgomery, the meeting adjourned at 4:13 p.m. There were no "nay" votes.

Respectfully submitted,

DEDRA M. WILLIAMS
Secretary

RAMÓN CEPEDA
Chair

EILEEN B. CABLE
Special Assistant to the Secretary