

JUL 09 2018

Alecia M. Killeen
SECRETARY OF THE BOARD

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

MAY 7, 2018

This meeting of the Audit, Budget, Finance, and Facilities Committee was held on Monday, May 7, 2018, at 3:04 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 clerk to call the roll. The following committee members were present: Mr. Ramón Cepeda; Mr. Donald J. Edwards; Dr. Stuart C. King;¹ Mr. Lester H. McKeever Jr., treasurer. Mr. James D. Montgomery; Mr. Trayshawn M. W. Mitchell, student trustee, Urbana; and Ms. Shaina Humphrey, student trustee, Springfield, were absent. 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. Susan J. Koch,

¹ Dr. King arrived at 3:14 p.m.

chancellor, University of Illinois at Springfield, and vice president, University of Illinois; Dr. Avijit Ghosh, interim 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 March 5, 2018. On motion of Mr. Edwards, seconded by Mr. McKeever, 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 MAY 17, 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 May 17, 2018. All proposed agenda items discussed at the meeting are on file with the clerk.

Clarify Delegation of Signature Authority for University of Illinois Bank Accounts

Mr. Cepeda asked Dr. Peter J. Newman, associate vice president for treasury operations, to discuss the recommendation to clarify the delegation of signature authority for University of Illinois bank accounts. Dr. Newman explained that operational needs often necessitate the use of domestic and foreign bank accounts on behalf of the Board and that

many banks require a specific delegation to the comptroller to open, close, or maintain bank accounts. He said the associated required paperwork can present many administrative challenges, and he told the committee that this recommendation would clarify the delegation of authority to the comptroller from the Board. Dr. Newman provided additional information about this delegation, and there were no questions or comments about this recommendation.

Approve Preliminary Operating Budget for Fiscal Year 2019

Mr. Cepeda asked Dr. Ghosh to discuss the recommendation to approve the preliminary operating budget for Fiscal Year 2019. Dr. Ghosh explained that the actions of the State, including a determination of the State appropriation, will conclude after the last Board meeting of this fiscal year. He said this process of approving a preliminary operating budget enables the University to continue to pay its bills, and he said this process has been used for many years and fulfills a statutory requirement. Dr. Ghosh told the committee that the recommendation for approval of the preliminary budget includes authorization at Fiscal Year 2018 budget levels. He said that approval of the budget for Fiscal Year 2019 will take place after the approval of the State's budget and will likely be brought to the Board in September 2018. Mr. Edwards clarified the purpose of this recommendation and referred to concerns expressed in previous years when the University did not have a budget because the State appropriation had not been determined. He emphasized the need to engage in a budget process irrespective of the State's appropriation to the University, and Dr. Ghosh confirmed that the process of

creating a budget for Fiscal Year 2019 is underway. Mr. Edwards said that trustees should receive information about revenues and expenses at each university and college, as well as some program level financials. Dr. Ghosh reported that some processes have been established to provide this information, and that additional steps are underway.

University of Illinois Hospital and Clinics CEO Report

Next, Mr. Cepeda asked Mr. Michael B. Zenn, chief executive officer, UI Hospital, to give a report from the University of Illinois Hospital and Clinics. Mr. Zenn presented a performance summary and referred to significant operating margin improvement and strengthening of the hospital's cash position. He showed net patient service revenue, operating margin, and the Fiscal Year 2018 run rate and reported on improvements in days of cash on hand and unrestricted and restricted cash and investments.

Mr. Zenn then gave an update on the 3i project and provided information regarding the request for proposal process and the challenge that had been issued by Cerner with the State procurement office. He told the committee that the Procurement Policy Board is reviewing the proposed contract, and he emphasized that risks to the hospital rise as the contracting progress is delayed. Brief discussion followed regarding a revised timeline and aspects of the challenge from Cerner.

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 the Veterinary Teaching Hospital Small Animal Surgery renovation and addition project. He described aspects of the project and introduced Mr. Adam Quigley of Tilton, Kelly and Bell, who gave a design presentation. Mr. Quigley showed the location of the project within the University master plan and presented the floor plan for the addition. He showed building sections and told the committee that the addition will be used primarily for surgery. Mr. Quigley then presented elevations and views of the building exterior. Mr. Cepeda thanked Mr. Quigley for the presentation.

Next, Mr. Bass discussed the recommendation to approve the project for life safety, heating, ventilation, and air conditioning upgrades at the Digital Computer Laboratory, Urbana. He reported on the history of the building and said the proposed project addresses deficiencies with the fire suppression system and heating, ventilation, and air conditioning systems in the older sections of the building. Mr. Bass said it will also address mechanical systems in the older sections of the building that have exceeded their normal useful life, and he discussed the benefits of the project.

Mr. Bass then reported on the recommendation to approve the project for track and field replacement in the Division of Intercollegiate Athletics, Urbana. He said that the Division of Intercollegiate Athletics has identified the need to provide a complete replacement and reconfiguration of the existing track and field facilities, and he described the proposed improvements. Mr. Bass said the \$6.0 million proposed replacement will provide a total of 213,000 gross square feet of new site development.

Next, Mr. Bass reported on the recommendation to approve an energy conservation project and professional and construction services award. He explained that the Public University Energy Conservation Act allows the University to undertake energy conservation measures by engaging energy service companies and that a guaranteed savings agreement shall include a written guarantee from the energy service company that either the energy or operational costs savings, or both, will meet or exceed within 20 years the costs of the energy conservation measures. Mr. Bass listed the buildings at Urbana that are candidates for the program and described the types of work to be performed. He stated that it is being recommended that Schneider Electric of Homewood, Illinois, be employed for the professional and construction services award for Energy Performance Contracting. Discussion followed regarding the timeline for return on investment and calculation of savings, and Mr. Cepeda indicated the Board would need additional information in order to make an accurate determination.

Mr. Bass then discussed the recommendation to increase the project budget and amend the professional services agreement for research laboratories at the Medical Sciences Building, Chicago. He gave a history of the project and described the scope of work, and he said that the requested budget increase is due to unforeseen conditions.

Mr. Bass next reported on the recommendation to increase the project budget for upgrade and expansion at the educational laboratory, Talbot Laboratory, Urbana. He described the history of the project and the work to be completed, and he also reported on funding for the project. Mr. Bass said a budget increase is needed to support the project.

Next, Mr. Bass provided information on the recommendation to employ a professional services consultant for the renovation of Townsend Hall and Wardall Hall, Illinois Street Residence Halls, Urbana. He described the scope of work to be completed and said that in order to proceed, it is necessary to employ a professional services consultant for the required professional services, and that it is recommended that Cannon Design of Chicago, Illinois, be employed for the professional services required for the construction documents, bidding, and construction administration phases of the project.

Mr. Bass then discussed the recommendation to award a construction contract for the Clinical Performance Center at the College of Medicine, Chicago. He gave a history of the project, which was approved by the Board in September 2014, and described the scope of work to be completed. Mr. Bass said that it is recommended that contracts be awarded to F.H. Paschen, S.N. Nielsen and Associates, LLC, and he reviewed the Minority and Female Business Enterprise (MAFBE) participation rates for this proposed contract.

Mr. Bass provided information on the recommendation to award construction contracts for renovation and addition at the Dining Facility, Illinois Street Residence Halls, Urbana. He reviewed the history and scope of the project and said that bids for the second phase of work have been solicited, and that it is recommended that several contracts be awarded. Mr. Bass described the work to be completed and reported on Women's Business Enterprise and MAFBE participation rates.

Next, Mr. Bass reported on the recommendation to award construction contracts for the Siebel Center for Design, Urbana. He summarized the history of the

project and said it is being recommended that several contracts be awarded in order for work to continue. Mr. Bass said funds for this project are available from the institutional funds operating budget and gift funds.

Mr. Bass then summarized the capital and real estate items and reported that the budget for these items combined is \$282,288,900, noting significant activity. He said the MAFBE participation rate is just over 20 percent. President Killeen commented on the proposed energy conservation project and told members of the committee that additional information about the project will be provided. Dr. Jones said that energy conservation projects are a critical in reducing the carbon footprint and have short- and long-term savings.

Purchase Recommendations

Mr. Cepeda then asked Ms. Gloria Keeley, interim assistant vice president for administrative services, to report on purchase recommendations. Ms. Keeley first provided information on the recommended purchase of Microsoft enterprise desktop platform software for technology services at Urbana and said that sole-source procurement procedures were followed in accordance with the Illinois Procurement Code. She then provided information on a proposed five-year service agreement for maintenance, repair services, replacement parts, and unlimited overhaul for two solar turbine generators. Ms. Keeley said sole-source procurement procedures were followed in accordance with the Illinois Procurement Code. Next, Ms. Keeley reported on the recommended purchase of temporary personnel services for the University of Illinois at

Chicago. She said the estimated cost is \$152,391,590 from July 1, 2018, through June 30, 2021, and that these temporary personnel will be used throughout the University of Illinois at Chicago, including the University of Illinois Hospital and Health Sciences System. Ms. Keeley then discussed the recommended purchase of a student accident and illness insurance plan to be provided by Academic Health Plans/Blue Cross Blue Shield, and indicated that competitive sealed proposal procedures were followed in accordance with the Illinois Procurement Code.

Next, Ms. Keeley reported on recommended renewal options, and she provided information regarding the recommended renewal for the purchase of maintenance and repair work at the Utilities Production Plants at Urbana for July 1, 2018, through June 30, 2019. She provided information about the Utilities Production Plants and the type of maintenance and repair work to be provided. Ms. Keeley then discussed a second recommended renewal for the purchase of maintenance and repair work at the Utilities Production Plants at Urbana for July 1, 2018, through June 30, 2020, and explained it is vital to have contracts in place that allow the University to move quickly to address scheduled and emergency maintenance and repairs as specific needs are identified. Next, Ms. Keely provided information about the recommended renewal for marketing and delivery services for large-scale and low-cost online degree programs at Urbana from Coursera. She explained this is a sole-source purchase because the vendor has a proprietary learning management system that readily handles well over 1,000 learners per course and has the expertise to better identify students interested in degree programs. Lastly, Ms. Keeley reported on the recommended renewal for student health

insurance and routine administrative services at Urbana. She said this will exercise the third of eight renewal options and described the services to be provided by the vendor, United Healthcare Services, Inc.

Mr. Edwards inquired about previous contracts for the maintenance and repair work at the Utilities Production Plants at Urbana, and Ms. Keeley responded that she would investigate and report back after the meeting. Discussion followed regarding the use of temporary personnel at Chicago, and Mr. Edwards expressed concern regarding the high cost and cautioned against an over reliance on temporary personnel. Mr. Zenn indicated that some are used at the hospital, and Dr. Ghosh referred to changing needs based on a fluctuating average daily census at the hospital. Mr. Zenn explained that the cost of the renewal is not necessarily indicative of the level of use and provides spending authority to utilize temporary personnel from the firms listed in the item. Dr. Ghosh stated that they will report back with actual expenditures over the last three years, and Mr. Edwards asked that this separate the costs at the hospital and those at the University of Illinois at Chicago.

Fiscal Year 2017 State and Federal Compliance Audit Summary Report

Mr. Cepeda asked Ms. Ginger L. Velazquez, executive director of business and finance, to present the results of the Fiscal Year 2017 State and federal compliance audit (materials on file with the clerk). Ms. Velazquez explained that the Illinois Office of the Auditor General contracts with an independent firm to conduct annual audits of the University, and she listed the included audits. She gave a Fiscal Year 2017 State and

federal compliance audit summary and said that the number of findings were the same as Fiscal Year 2016 and greatly reduced from previous years. She reported on federal compliance findings and said the University received an unmodified opinion for all major programs. Ms. Velazquez gave an overview of the federal findings and said there were four new findings, four repeated findings, and seven that did not repeat. She described the causes for the federal compliance findings and said that corrective action plans were submitted for all federal findings. Ms. Velazquez then gave a summary of the State compliance findings, noting that the University is committed to resolving all findings, and reviewed the causes for Government Auditing Standards (GAS) and State compliance findings. There were no questions or comments about the report.

Summary of Internal Audit Activity Through Third Quarter Ended March 31, 2018

Next, Mr. Cepeda asked Ms. Julie A. Zemaitis, executive director of University audits, to give a summary of internal audit activity through the third quarter ended March 31, 2018 (materials on file with the clerk). Ms. Zemaitis reviewed the Fiscal Year 2018 audit plan completion status and showed that 70 percent of projects are complete or in progress, and she mentioned the hiring of new team members and expansion of some projects. She presented the implementation of audit recommendations and year-to-date audit report findings through March 31, 2018. Ms. Zemaitis then showed year-to-date audit findings according to location and provided information about the number of findings at each location. Next, Ms. Zemaitis presented the aging of outstanding recommendations by management's original expected implementation date and showed the number of

recommendations with management's original implementation dates of Fiscal Year 2017 and prior by risk and priority rating and by location.

Ms. Zemaitis then discussed the requirements of the Quality Assurance and Improvement Program and described aspects of internal and external assessments of the Office of University Audits. She told the committee that an external assessment is conducted at least once every five years. Mr. McKeever commended Ms. Zemaitis on the outstanding work done by the Office of University Audits, and Ms. Zemaitis credited her team and thanked management for its support. Mr. Edwards inquired about new recommendations, and Ms. Zemaitis described the process undertaken by the Office of University Audits to identify potential issues and respond with recommendations to be implemented by that unit.

There were no objections to the agenda items listed above going forward to the full Board for voting, with the caveat that additional information would be provided for the items where noted.

OLD BUSINESS

There was no business presented under this aegis.

NEW BUSINESS

Mr. Cepeda asked the committee if there was any new business to discuss. Dr. Ghosh discussed the potential use of a new accounting standard, GASB 75, from the Illinois

Office of the Comptroller that could impact the University's financial reporting for active employees whose health insurance costs are paid directly by the University, including those who are paid by grant funding. He said discussions with the Illinois Office of the Comptroller are underway, and he reported that the University is being advised by external counsel and a GASB expert. Dr. Ghosh discussed the potential impact and said he will keep the Board informed on this matter.

Mr. Cepeda announced that the next meeting of this committee is scheduled for Monday, July 9, 2018, at 3:00 p.m.

MOTION FOR EXECUTIVE SESSION

At 4:43 p.m., Mr. Cepeda requested a motion for an executive session to consider discussion of minutes of meetings lawfully closed under the Open Meetings Act. On motion of Mr. McKeever, seconded by Mr. Edwards, this motion was approved. There were no "nay" votes.

EXECUTIVE SESSION

Mr. Cepeda convened the executive session at 4:44 p.m. All of the committee members except Mr. Montgomery, Mr. Mitchell, and Ms. Humphrey were present. The following were also in attendance: President Timothy L. Killeen; Mr. Thomas R. Bearrows, University counsel; and Ms. Dedra M. Williams, secretary of the Board of Trustees and of the University.

Discussion of Minutes of Meetings Lawfully Closed Under the Open Meetings Act

Mr. Cepeda asked Ms. Williams to discuss the recommendation regarding the disclosure of minutes of executive sessions of the Audit, Budget, Finance, and Facilities Committee held May 2012 through November 2017. Ms. Williams outlined the requirement within the Open Meetings Act for public bodies to review minutes, at least twice annually, for purposes of protection of public interest and in the interest of protection of any individual, and to consider whether a need for these materials to be held from release continues. She stated that she has undertaken this review in conjunction with Mr. Bearrows and recommend the release of minutes from November 6, 2017, which state the discussion of review at that time. No other minutes are proposed for release at this time.

Mr. Cepeda then asked for the doors to be opened.

EXECUTIVE SESSION ADJOURNED

There being no further business, the executive session adjourned at 4:48 p.m.

AGENDA

At 4:48 p.m., the open session resumed. Mr. Cepeda stated that there was one agenda item requiring action by the committee, and Ms. Williams read aloud the title of the item, "Disclose Certain Minutes of Executive Sessions Pursuant to the Open Meetings Act." The committee agreed that one roll call vote would be taken and considered the vote on the agenda item as listed below.

Disclose Certain Minutes of Executive Sessions
Pursuant to Open Meetings Act

(1) Under the Open Meetings Act passed by the General Assembly, public bodies subject to the Act that conduct business under exceptions specified in the Act must, at least every six months, determine whether the need for confidentiality still exists with respect to each item considered under such exception.

Items from May 2012 through November 2017 that have been heretofore unreleased are recommended for release at this time.

The university counsel and the secretary of the Board, having consulted with appropriate University officers, recommends that the following matter considered in executive session for the time period above be made available to the public at this time.

The committee action recommended in this item complies in all material respects with applicable State and federal laws, University of Illinois *Statutes*, *The General Rules Concerning University Organization and Procedure*, and Board of Trustees policies and directives.

The president of the University concurs.

Executive Session Minutes Released to Public**November 6, 2017, Audit, Budget, Finance, and Facilities Committee**

Mr. Cepeda convened the executive session at 5:13 p.m. All committee members were present. The following were also in attendance: President Timothy L. Killeen; Mr. Thomas R. Bearrows, University counsel; and Ms. Dedra M. Williams, secretary of the Board of Trustees and of the University.

Discussion of Minutes of Meetings Lawfully Closed Under the Open Meetings Act

Mr. Cepeda asked Ms. Williams to discuss the recommendation regarding the disclosure of minutes of executive sessions of the Audit, Budget, Finance, and Facilities Committee held between May 2012 and May 2017. The secretary outlined the requirement within the Open Meetings Act for public bodies to review minutes, at least twice annually, for purposes of protection of public interest and in the interest of protection of any individual, and to consider whether a need for these materials to be held from release continues. She stated that she has undertaken this review in conjunction with Mr. Bearrows and recommend the release of minutes from May 1, 2017, which state the discussion of review at that time. No other minutes are proposed for release at this time. Mr. Bearrows reminded committee members that the matters sequestered related to sensitive employment and internal control matters, which require holding from release at this time.

Members inquired about the requirement for release and clarified the material recommended for release, which Mr. Bearrows and Mr. Cepeda confirmed as the discussion of items from the meeting six months prior. Mr. Cepeda then asked for the doors to be opened.

On motion of Mr. McKeever, seconded by Dr. King, this recommendation was approved by the following vote: Aye, Mr. Cepeda, Mr. Edwards, Mr. King, Mr. McKeever; No, none; Absent, Mr. Montgomery, Mr. Mitchell, Ms. Humphrey.

MEETING ADJOURNED

On motion of Dr. King, seconded by Mr. Edwards, the meeting adjourned at 4:49 p.m. There were no "nay" votes.

Respectfully submitted,

DEDRA M. WILLIAMS
Clerk

RAMÓN CEPEDA
Chair

EILEEN B. CABLE
Assistant Clerk