

**MINUTES OF THE COMMITTEE ON
EFFECTIVENESS & EFFICIENCY FOR THE FUTURE (EEF)
THE UNIVERSITY OF TENNESSEE
BOARD OF TRUSTEES
AUGUST 19, 2011**

The Committee on Effectiveness & Efficiency for the Future (EEF) of the Board of Trustees met at 10:00 a.m. EDT, Friday, August 19, 2011 in the conference room on the 8th floor of Andy Holt Tower on the Knoxville campus.

- I. **Call to Order**—Mr. Douglas Horne, Committee Chair, called the meeting to order.
- II. **Roll Call**—Chair Horne asked Mr. Charles Peccolo, Treasurer, Chief Investment Officer and Interim CFO to call the roll. He did so and advised the Chair that a quorum was present.

Present

Douglas A. Horne, Committee Chair
Don C. Stansberry, Jr., Vice Chair of the Board
Joseph A. DiPietro, President
Charles C. Anderson, Committee Member
Crawford Gallimore, Committee Member
James L. Murphy, III, Committee Member
Charles E. Wharton, Committee Member

Absent

Brian Ferguson, Committee Member

Also present was Charles Peccolo, Treasurer, Chief Investment Officer and Interim Chief Financial Officer, Keith Carver, Executive Assistant to the President and other members of staff.

Chair Horne welcomed Brian Ferguson, a newly appointed Trustee, to the Committee and explained that he was unable to attend the meeting.

Chair Horne then made the following remarks:

1. While the public is invited and welcome at all Board meetings, our meetings are “in the public” but not “public meetings.”
2. The Chair will recognize to speak only members of the Committee, other Trustees, and members of the senior staff.

3. The Committee has a set agenda and prepared materials for that agenda. No “new business” has been brought to the Chair’s attention prior to the meeting; so it is assumed there is none.
4. Lastly, the name of the Trustee making any motion and the second will be announced to help in the preparation of minutes.

III. **Approval of Minutes of Last Meeting**—Chair Horne asked if there were any additions or corrections to the minutes of August 19, 2011. With no corrections or additions noted, on a motion made by Trustee Gallimore, and seconded by Trustee Murphy, the minutes were unanimously approved as presented.

Trustee Horne welcomed the Vice Chair of the Board, Don Stansberry for a second term as Vice Chair and asked for any comments. Vice Chair Stansberry thanked the Chair for the opportunity to be involved with this company and admires the work being done. He went on to say if you read the paper and other sources – the work on this Committee could not be more important. Chair Horne went on to say that the Board members that initiated this Committee around two years ago were Jim Murphy and Andrea Loughry. Charles Anderson and I went along with them to different Universities to see how they were handling effectiveness and efficiencies for their institutions. Trustee Murphy added and it is a Committee that we need to continue. Chair Horne added that we learned that at the University of Maryland. This Committee must work hand-in-hand with the President and then he offered for President DiPietro to make comments. President DiPietro went on to say that this is work that will be continuing and is a part of the culture of the University. We can’t afford a future if we are not effective and efficient so it is just what we have to do and be about. We have had a good week if you have been reading the papers and have done some things that have gotten the University recognized and positioned to do even better. We got to do the elevator speech about the solar and biofuels initiatives for the Secretary of Agriculture, President and others to say we are on the cusp and need some help. Knoxville received an \$18 million grant from the National Science Foundation – Grid. Right now energy and efficiency go hand-in-hand and that is a part of what we have to do with this Committee.

Vice Chair Stansberry noted that he had been concerned, anxious and interested in the content of our communications. In my view, it has really stepped up in the last while. This week it was terrific – good message. President DiPietro stated that they are working on it and you have to get your message out. Chair Horne went on to say that it is very important to let constituents across the State know what the Committee is doing and also the Governor and Legislators.

- IV. **Facilities/Capital Projects Review Update**—(Exhibit 1)—Chair Horne began by saying we would continue to hone in on facilities and capital projects to become more efficient and asked Mr. Peccolo to present. Mr. Peccolo explained that at the last meeting Vice Chancellor Richard Brown spent quite a bit of time presenting the study that he chairs regarding the processes on how we work with the campuses and the State on our capital outlay and capital maintenance programs. As a result of that study, included in the Committee materials are a Summary of Recommendations, a three-page summary that categorizes into four broad areas. The purpose of the agenda item today was to update this Committee on where we are on implementing the recommendations.

Chancellors and Business Officers at each UT entity will get a packet that includes a summary of recommendations and asks for a designee from their campus to be the facilities intermediary with the facilities planning office; something that was contemplated and part of our policies already, but over the years we have strayed from that policy but it will be re-implemented. Communication should improve between our facilities planning office and the campuses. Staffing and organization was another broad area. We are working with Human Resources; Personnel Data Questionnaires are being done for two additional professional staff that will be deployed across the state. One of the positions will result in a larger presence in West Tennessee for the Memphis and Martin campuses and agriculture operations at the western end of the state. Another position will be assigned to the eastern part of the state which will help address needs of the Knoxville and Chattanooga areas. We will split the organization into two distinct functions; the administrative side and the project oversight group. One will address all pre-project construction activities, which includes capital budgets and working with the campuses on program statements for new facilities. Once a project gets through the budget process it becomes a funded project; then the second group will work with the designers and after that construction.

Reporting is also an issue. A Task Force rolled little known reports that already exist in our ERP System. They are looking at two other enhancements such as the “funds reservation” component of that report and looking at ways to “pretty up” a ledger. We had an initiative that created ledgers for Sponsored Research Projects. It greatly facilitated the PI's involvement and management of their grants. We just rolled out the general expense ledger with improvements for all department bookkeepers which is very user friendly. We had folks present the new E Ledger and they got a standing ovation from the Business Officers. It takes a lot to get a standing ovation from

business officers, but it happened. We are at the end of the process of designing a similar style ledger that would address project by project, the Plant Fund of the University. I think that is an improvement.

Lastly, he went on to discuss the ongoing issue of working with the State and revising some of the thresholds that have been in place for a long time. Mainly the one everyone is aware of is the \$100,000 threshold. There have been some productive discussions and on the state side some agreement that it is time to do that. We are pushing for \$500,000 as a starting point. If that could be accomplished it will greatly facilitate the frustrations the campuses have in regards to timing.

These are the things that we are in the process of implementing and wanted to report back to the Committee that we have heard you and are deep in the process of getting those recommendations implemented.

Trustee Murphy made the comment that it seems as though you have made a lot of progress in the areas that we were all concerned about from the Board's standpoint which was communications between system and campus levels. It sounds like we have begun to create a better structure to accomplish that but you have to also make sure that when you have the structure in place that the people in that structure are actually filling those roles and providing the feedback both ways. He emphasized that we really want to pay attention to that. Just putting someone there, and if it is one of 20 jobs they have to do and don't want to spend any time on it will not improve this situation. One of the things we need to make sure of is that the Chancellors' feedback through the President and you hearing from your staff. The problem with this is if people aren't performing in a way they need to – they need to understand that this is a big priority and it is something that must be done. Otherwise, we can stroke the structure all day but can't fix the problem. It sounds like we have made strides in getting more communications back and forth which is good and must continue. Mr. Peccolo said yes those statements are right on target. He then said that he was not pretending it is fixed but it is greatly improved. We have some work to do but hopefully some improvement has been seen on the Knoxville campus side. The biggest concern, as you pointed out, is that all understand the roles once the designee from the campus or institute is identified. The communication needs to flow up through the contacts. We are not there yet, but we have identified what the issues are. Trustee Murphy added that the key to making sure it gets done is after folks are in the proper slots that we follow through and evaluate to make sure all are doing their job and that issues are not falling through the cracks. We want to make sure that we don't just do

a one-time communication effort. We foster that communication back and forth all the time. President DiPietro commented that it will not be perfect but there is always room to improve.

Mr. Peccolo continued by saying at the last meeting we were asked to look at the change order activity. At the time, we thought it was 10% or less. Facilities Planning Director, George Criss researched and supplied unfiltered figures and the Committee members were given a handout. The numbers include every project, on every campus and the number of change orders. The aggregate is about 6.4% in the way of change orders. If you look at the 10.1% of change orders for the Health Science Center's – it contains a flood damage claim that State Insurance provided. We did it as a change order because the contractor was in there working at the time. The Institute of Agriculture had a donor that wanted to give more funds to increase the scope of the project so it is included as change orders for a percentage of 9.5%. We have had some unforeseen issues with infrastructure and geology issues. They get in there and realize they have to do more. If you factor those issues in it would make the 6.4% even lower. These figures are unfiltered and that is where we are.

Trustee Horne confirmed that the information given was campus-by-campus from July 2010 to present. He asked that it be looked at project-by-project. In his opinion, the change orders should be around 5% or less. Trustee Murphy suggested that if there is a campus that goes beyond 5% that a report is generated. He went on to say that there may be one that is 20% over and the other is 3% and if the 20% is because you changed the scope of work. His thought was if it was set at 5% or more there is no need to worry about the ones that are less. Then we can focus on how many projects are there that are more than 5%. Chair Horne confirmed that projects under 5%, the administration would review and any projects over that would be compiled into a report for the Committee to review annually.

Mr. Horne also mentioned the time was another criticism to be reviewed but part of that is the State's coordination. Chancellors still have concerns about the time it takes. Mr. Peccolo stated that time is a concern and also change orders that the Chancellors were not aware of. One of the things being proposed is to coordinate the project's budget total with the campus but individual line item change orders, again the contact person would know of them, but we won't stop to seek approval by the campus unless the overall budget goes up. We can shift between the budget line items with the appropriate feedback to the campus designee. That is the proposal that we sent out to the Chancellors and Business Officers. If they have a big problem with that they may come back and get involved in reviewing and approving

every change order. That will definitely increase time. Chair Horne asked if there are any recommendations on condensing the amount of time it takes to get projects started. Mr. Peccolo went on to say they are working with the State on changing the approval limits. They have new administration, new staff, new state architect and they are looking at all of their processes. They are trying to understand. Some of our conversations are going the other way because they want more approvals and oversight. We have suggested that if that is the case then let's be reasonable and do it for big ticket items. Then we can go about the bulk of our business in more efficient ways. We are working with them but we need to get this issues resolved first.

President DiPietro asked about a change order where you move a countertop and a set of stinks across the room because the contractor thinks it will be easier to do it that way and less expensive on their part. Do we ask the unit if that is o.k. with them or not? Mr. Peccolo answered that when they have the biweekly project meetings the campus representative will be part of that and it should be brought up at that time. The designee will then be responsible to get back to the Chief Business Officer and apprise so if there is an issue it can be discussed at that time. President DiPietro went on to say that he thinks it is very important because the end user knows why that sink and countertop needs to be on a specific wall. It is important for them to be able to have input regarding their needs. Mr. Peccolo said what happens more often is that once the design has been completed it is the college that asks for those changes to be made versus the contractor changing.

Chair Horne then asked if there was going to be a new initiative of having a project manger per project. Mr. Peccolo answered yes there will be project manager over each project from the Facilities Planning Department. It won't be one on one. Employees will have several projects that they will manage. Chair Horne wanted to ensure that there would be accountability for each project and Mr. Peccolo said there would be and the plan adds two more professional staff. Chair Horne noted that a few years ago the University had over a billion in construction projects. He also confirmed that the Facilities Planning department does answer to Mr. Peccolo.

Chair Horne then asked if Chancellor Cheek of Vice Chancellor Cimino had any comments. Vice Chancellor Cimino commented that he thinks a good structure has been laid out but we need to make sure we follow the policies that are already in place. Chancellor Cheek interjected that the UT Knoxville campus does still need more interaction because it is still not where we need to be. He went on to say that Trustee Murphy's comment was very important that we implement the plan and

make sure that we are at the table and know what is happening. Chair Horne finished by saying communication and coordination is key.

- V. **Revenues and Appropriations**—(Exhibit 2)—Chair Horne asked Mr. Peccolo to present the Revenues and Appropriations. Mr. Peccolo explained that he had asked Budget Director, Ron Loewen who is also the staff liaison for the EEF Committee to present this item to the Committee.

Mr. Loewen began by explaining that at the February 2011 meeting, state revenues were improving, but it didn't take much to improve over what they had been in 2009 and 2010. While the revenues were improving, the Rainy Day Fund dropped \$1 billion in just two years; the State was able to manage getting through two very difficult financial years by dipping into reserves. Fiscal year 2011 that just ended on June 30 was set up to use another \$185 million out of that shrinking reserve. On the expense side, they were looking at mandatory costs in state having grown over \$400 million since 2008. We had finally reached a trough in the drop of state revenues that were improving but the reserves were at low levels. Some mandatory costs that were unavoidable squeezed out some funding capacity in the funds that were remaining. At that time, the state was telling us and other agencies to look at preparing reduction scenarios for one, two and three percent. What actually happened was higher education appropriations were cut by two percent. Through the different formulas and approaches that the Tennessee Higher Education Commission uses the University's budget cut was more like 1.7%. There was a heavier hit on the Tennessee Board of Regents schools regarding the two percent cut. On the other side, the State provided some partial funding for salary increases and funded 1.6% statewide. The funding provided UT \$7.6 million and we were expected to fund the other portion through tuition. He also noted that there are staff members that are not paid through state funding because their salaries are charged to federal grants, contracts, endowments and other funding sources. The \$7.6 million only covered about half of the 1.6% increase. The University added some additional funds for across the board and merit increases for a total of \$37.7 million. The \$7.6 million did not cover all the expenses. UT received another adjustment of \$4.7 million for health insurance rate increases but once again that is money that came attached with costs and did not improve our situation. In fact, the costs are a little higher than the funding received.

Mr. Peccolo interjected that one of the items on the Committee's agenda was group insurance. He made the point that as rates increase there is a direct appropriation from the state.

Mr. Loewen noted that last February state revenues and state general revenues were reviewed and there were questions about the size of the state's budget. The state's budget is around \$30 billion and what was shown in the Committee meeting was \$11 billion. He then went on to explain how the state's budget is comprised. Over half of the \$30.4 billion state budget is federal funding that comes from multiple programs. The bond rating agencies are requiring the state to develop contingency plans on 15% and 30% reductions in the federal funding piece next week. We are now working on the University's piece of the funding reduction. It will only be a small portion and a small piece of the story, but would definitely tighten things if there is a reduction of 15% or 30% on half the state's budget. Only \$13.5 billion is actually state revenues from a mixture of fees and state taxes. The University has its own grants and contracts. We do not have any specific information that it will definitely be cut. It is a due diligence step that the state is doing as a direct request from the bond rating agencies.

At times when we are tracking trends on how the state's revenue looks we will focus on the \$13.5 billion. It is divided into a few different funds and the most important fund for the University is the general fund. This fund is approximately \$9 billion for fiscal year 2012. That is where the higher education funding resides in the state budget. In the general fund, higher education makes up about \$1.4 billion and the University's piece is a little over \$400 million. In the governor's fiscal year 2012 budget there are discussions about fiscal year 2013 which includes cuts around \$95 million. That may change as we get closer to that time. The \$95 million will not come up out of the \$30.4 billion, it has to come out of the \$9 billion general fund. Within the general fund there are fixed cost commitments and only a portion is discretionary. One of the challenges in looking at state funding is that our entire piece of state money is in that discretionary piece of the pie and how we build the case and mechanisms so they don't see it as discretionary as it is now.

Mr. Loewen then presented a slide that showed monthly general funds revenue for a 12-month period that tie to the \$8.9 billion piece of the pie that we are part of. It showed where they are tracking month by month and there is a great deal of seasonality because it is mostly sales tax revenues. The past 12 months have generally been pretty good. The actual collections have exceeded the budget by 2.6% and the previous year by 4.3%. July numbers slightly exceeded budget, but is the first month of this year that fell below previous year collections. It is the first time we are seeing that the recovery in state revenues is slowing down and might be cooling off a bit. He then showed a bar graph that is part of the \$13.5 billion of state revenues that covers a few years. Each of the monthly numbers is a running

total of a 12-month revenue collections going back to 2006. In 2006 and 2007 revenues were growing at a fairly rapid pace. It was a steeper growth curve than you see in the long-term state revenues in general. In late 2007 and mostly through 2008 it flattened out and started to stagnate. Then there was a decline in 2008 and 2009 that was just as rapid, if not more so, than the growth. Trustee Anderson asked if the growth points was a trailing 12-month total. Mr. Loewen said yes it is a trailing 12-month total of that month – it takes out some of the seasonality that was shown in the previous graph. The 12-month totals in 2009 and 2010 finally troughed out and got an up-tick. That 12 month growth curve wasn't as steep as the one in 2006 and 2007 but is more like the long-term historical average for growth in state revenues. He then showed that June and July had flattened out and obviously there has been concern over the last couple of weeks regarding how the economy is going.

Mr. Loewen then shared information that was prepared by the state Fiscal Review Committee. It started back in 2005, 2006 and 2007 with rapid growth and topped out in 2008 and then went down steeply. In 2009 it slowed down and started to recover over the last two years. He then explained that the green bar on the chart is an estimate if you add in the mandatory growth and other costs of government. We must get back up to that green bar to be at an equivalent level of state funding as in 2008. There have been costs that have grown in the K-12, BEP and other programs that are not discretionary. Trustee Anderson asked if there was any inflation adjustment in the projections. Mr. Loewen said no and if there was an inflation adjustment it would be more of a sloped curve in the out years. The state has not made it all the way back to funding levels as in 2008 with the same fiscal capacity. The projections were at a 3% growth rate we would be back to that level sometime in 2013 or 2014. At a 2% growth rate we would not be getting back to an equivalent level of fiscal capacity until 2015. At 1% it stretches out to 2020. By that time, the green curve is actually growing as well. Even if things turn around and continues to improve the state still has a ways to go before it recovers the financial flexibility it had in 2007 and 2008. President DiPietro asked if you were to guess in that 2-3% range what would you guess. Mr. Loewen answered that things have been tracking on the 3% line and would not be an unreasonable growth rate. Given what we have heard in the past couple of months it is anyone's guess which way it might go. There is a great deal of concern in the news. The last couple of months have definitely slowed and the growth rate that reflects those worries. If it continues we may be looking at 1% and it is definitely under the long-term growth for the state.

Mr. Loewen then gave the Committee a view of the state reserves. Sometimes you hear about the Rainy Day Fund when discussing state revenues. He showed it going back to 2006. The red bar represents the funds tied to the Tenn Care program. The blue bar represents the Rainy Day funds that ties to the general fund. Typically, this pattern follows what we just discussed for the revenues. There was growth in 2008 and since that time has been used along with appropriations reductions to help the state balance its budget. He admitted that he had not quite figured out the "core services" but it seems like it is a one-time way that reserves of that to be used for initiatives in state government. In 2012, it is definitely at the lowest bar shown in this time series. The reserve is not very large based on a budget the size the state has.

He then concluded by saying that things are not as bad as they were in 2009 and 2010 but we are still looking at some fairly tepid revenue growth. The reserves are at low enough levels where they can't help absorb large reductions. We continue to have mandatory cost increases in programs such as K-12 and BEP. Cuts built into the state's projections for 2013 currently are \$95 million. We are in the discretionary piece of the funding pie so that \$95 million could translate into another 1-2% cut for higher education next year. That is not based on any discussions or news from Nashville; it is from reviewing the numbers and making a judgment call on our part. We wouldn't be surprised to see that happen. Typically in September or October we receive guidance from THEC on the types of assumptions to build into our planning for fiscal year 2013.

Trustee Horne thanked President DiPietro and Mr. Peccolo for assigning a full time staff member to the EEF Committee. He went on to say that he doesn't know what THEC has done in regards to Effectiveness and Efficiency but the University has done a great deal for two reasons. One because it is the right thing to do and the second is to tell our story to the Legislature in hopes that they will increase appropriations to the University. He asked what THEC and the Tennessee Board of Regents plans are in this area. President DiPietro replied that our strategy is to get the word out on what we have done. We have had conversations with policy makers about tuition increases last year and one of the things they asked was regarding the long-term trend. We replied that it is very important to know where the Legislature stands on appropriating for higher education. Part of our strategy is to let them know that we have become more effective and more efficient but we still need them to consider how they might help us with appropriations. We need to continue to be entrepreneurial and continue to look at grants like the one we just got from the National Science Foundation and others. The new Foundation that we are

getting off the ground right now is the key to an additional \$100 million in private gifts by 2020. We have a trend here that if we grow at 3% we might be back to fiscal year 2008 levels. In the meantime, we are going to be in a position of getting it done without the state's appropriations. Vice Chair Stansberry noted not to forget that in 2008 we thought people were underpaid, underserved and underfunded. That is not a great success.

President DiPietro stated that at the last THEC meeting there was a conversation about an initiative and the Commission approved funding for Lambuth Campus in Jackson as part of the University of Memphis. I am an ex-officio non-voting member but I challenged the Commission that there are costs to do this once Lambuth is up and on-line as a Memphis campus at approximately \$4 million. It doesn't sound like a great deal of money but you saw the State's budget for higher education is only \$1.4 billion so it translates to 2 or 3% everyone involved in the Complete College Tennessee Act program does 1% better on average (I think our campuses will do much better) it amounts to about a \$3-\$4 million additional cost. There is really no plan from the appropriators on how to cover that gap. By doing Lambuth, it would be equivalent if we all took less money by doing 1% better. He explained to THEC that it was very important that they understand how to advocate what higher education needs and that their ability to approve going forward with programs like this has impacts on all of us. It is time for THEC and the Commission to exert themselves and say we know this is a need and we want to create this additional cost. Better yet, when working with the administration – the position should be to advocate for those monies when we need them too. The Commission agreed with that and will see to it that they live up to it. We are working more closely now with Tennessee Board of Regents, John Morgan and his team, than we ever have in my timeframe at the University. We need to continue to work with THEC to say we are being funded properly and we are in a bad situation. It is important for them to take care of the rule making and bean counting and tell us which programs are doing well and which aren't. It is also important for you to advocate and talk about what our needs are for higher education in dealing with administration and the Legislature. That is a new perspective for them but I think it is a role that they should play. We need to do it but we also need them to help us. We will continue to do it and we are not bashful about it and will not stop.

Trustee Anderson noted that when we talk about this Committee the first thing I think about is the goal of making sure that we let the Legislature know that we are effective and efficient with these funds. We need to make sure the Legislature understands jobs. I would like to see this Committee couple the good stewardship of money with

producing jobs. That is what the University of Tennessee does. They get that. If we could put together the information and data to say that this is an investment in Tennessee jobs. That is why higher education is so important. Coupled with the good use of the money and with the investment of providing jobs we will have a good campaign and story. Vice Chair Stansberry added that there was an article last month about the economical impact of the University of Tennessee on the whole State. It is enormous. The University gives back \$10 for every dollar they give us. President DiPietro added that UT Health Science Center gives back \$18.1 and the average for the rest is about \$10. Vice Chair Stansberry said that Trustee Anderson was absolutely right to preach if you give us we give so many X dollars back in sales tax and that results in X dollars in jobs you are more likely to get the money. There are studies that support this. Trustee Horne said that he wants us to do a better job on the Web site identifying heroes that come out of here that are entrepreneurial and are job producing people. We need to focus on that more. Trustee Anderson added that one of the things to do is we have to communicate that to the Legislature. An investment in getting this information together is that their perception becomes reality. Once we convince the Legislature that we do produce jobs and that we give back X number of dollars it will be easier for us to sell our program. President DiPietro said about 15 months ago that the UTK Center for Economic Research did a study. The nature of the enterprise of the University of Tennessee across the State produces 53,000 jobs. We have 15,000 employees but there are 53,000 jobs that are add ons because of the enterprise we run. It is not just the students we produce that end up fostering an economic development, create jobs and train the workforce but the enterprise itself generates another 53,000 jobs in the state. That study was published around 15 months ago and President DiPietro asked Gina Stafford from Communications to get copies to the Board members. Vice Chair Stansberry went on to say that Trustee Anderson is right that we don't communicate that in an organized planned campaign and don't get the word out. President DiPietro said another thing that should resonate with them is the tax revenue generated by the University is around \$240 million. Vice Chair Stansberry interjected that they are only giving the University \$400 million and that is more than half their money back. President DiPietro went on to say that we have a great story to tell we just have to get it out there.

Chair Horne mentioned that while he was listening to one of his favorite shows, Morning Joe Show, and they were talking about higher education. Virginia Governor, Bob McDonnell is on the show and of course Virginia has had their problems too. They have increased funding by \$50 million for higher education. Hopefully, that is what our Governor and Legislature will do for us and we will keep pushing for

that. Governor McDonnell said that he is investing in higher education and investing in the infrastructure in Virginia and we are doing really well. We can tell THEC that we have a bipolar approach to help ourselves too. Trustee Wharton told the President that Hank Dye, Vice President of Government Relations and Public Affairs should be meeting with the group to hear all this. President DiPietro explained that he was tied up. Chair Horne suggested an EEF Committee meeting in Nashville and invite the Legislators to attend as visitors. Trustee Wharton questioned whether Anthony Haynes, Director of State Relations should attend these meetings as well.

Trustee Murphy said it was a very good idea to have a Committee meeting in Nashville and do it at a time when some of the Legislators and we could dialog with them and understand more of what we are doing. We have met at all the campuses but there isn't one in Nashville but they are a very important group to communicate this to and the Committee meeting would be a great forum to do it. Trustee Horne noted that the Legislators are in Nashville the second week in January. Trustee Murphy added that they are also in town for committees as well. Between now and then we might be able to find out if the Education or Finance Committee will be meeting. We can show what the economic impact is but also what we have actually done and how we are tracking information. Trustee Wharton said there are two pieces; what we do for the state and what we are doing internally. Trustee Wharton noted that he had not heard about the University giving back \$240 million. That is a huge number and about 60% of what they give the University and I bet they don't know it. Vice Chair Stansberry said you can probably work this a little more and get the money well over what they give us. You can't have the impact that the University does on the State without raising substantially the taxes that come in.

Trustee Horne informed the Committee that the University is in the process of selecting a new Vice President of Development and Alumni Affairs. President DiPietro added that they are close. Trustee Horne said that is very important for the private fundraising. He added that Virginia has done a great job with private fundraising and we will get better.

Trustee Anderson asked if there was a way to produce a 2-3 page handout with 4-5 bullets that are powerful things that when we are out talking with people we are consistent with our message and telling the Legislators to look at what we are doing. Trustee Wharton added that we are going to try to work with our Alumni Associations across the state and have a graduation handout of how much better a college grad does over his or her lifetime in earnings. This helps raise the

awareness of the value of an education is in Tennessee. That is something underappreciated by many people whose circumstances are different. We have to get the word out because fundamentally when the guy that has the factory job or whatever understands how important an education is to his or her children – we will get better buy in. This is why having this handout at every graduation so that the senior thinks about going to college. Chair Horne said that it could definitely be done and would get Mr. Peccolo and Mr. Loewen to work on it with him and then pass it by the Committee.

Trustee Horne mentioned that he had heard that Chancellor Cheek had an envelope for all students coming in to the University and asked him to explain. Chancellor Cheek informed the Committee that it is the second year that it has been done. We put an envelope in everyone's chair (4,200 students) that said do not open. There were a few that opened it beforehand. At the end of the speech I gave he then told the students to take the envelope out and tear it open. It really made a lot of noise when they opened all 4,200 envelopes in Thompson Boling Arena. In that was a tassel with 2015 on it and that meant you are supposed to walk across the stage in 2015 with the tassel on your cap. The simple message was to graduate in four years.

Trustee Gallimore began by saying he travels all across the state and most of the people that he runs into think that he is grossly overpaid and that the rest of the group is to. He read an article in the Alumni Magazine that goes to 17,000 people. For the US Government the return for education is 10 to 1. We will not solve the long-term economic problems of this country unless you grow the economy. You have to partially grow in addition to cutting. Carefully decide where you are going to cut – you don't cut the higher investments that are going to grow the economy. Vice Chair Stansberry said all of this is making the point that a communications plan is essential and we have to do it. Beat that drum and as Trustee Anderson said make it consistent, powerful points. President DiPietro added that another thing that needs to be in the elevator speech is the \$2.5 billion income that we make for the state from the University of Tennessee. People come and bring their kids to college, they come to Neyland Stadium and Thompson Boling Arena and there is \$2.5 billion that comes into Tennessee from across the entire system because the University exists. There are about 3 or 4 points in that elevator speech that needs to go into a glossy handout but is simple. Trustee Wharton advised that communications needs to be part of the long-term strategy. We must be consistent and uniform in everything we say and report everything we are doing because we have a story to tell. Vice Chair Stansberry added that it is going to be a major focus for the Board Workshop scheduled on August 24, 2011. Chair Horne assured

the Committee that the bulleted calling card would be done and will get it out to the Board to carry and give out across the state.

- VI. **Effectiveness and Efficiency Cost Savings by Campus**—(Exhibit 3)—Ron Loewen, Budget Director proceeded to present the cost savings by campus. He informed the Committee that in Diligent there is a cumulative list of every effectiveness and efficiency initiative project that has been done since the Committee started. He then presented the summary of activities since the Committee's inception. There have been 78 projects completed, 44 projects in progress and ten that are currently proposed that have not yet made to the implementation stage for a total of 132 projects. Every campus and institute has had a number of projects and the estimated efficiencies are relative to the size of the budgets somewhat. Trustee Wharton asked how hard the numbers were. Mr. Loewen replied that he could not tell the Committee that they were audited numbers. In some cases, we have really good estimates of what the efficiencies were and in others it is the best guess. We put together a projection of what we think the impact is. It is a variety of different numbers. Some are hard cost reductions and some are cost avoidance where we haven't actually spent the money yet, but if we don't make the changes down the road we will end up spending money. Vice Chair Stansberry asked if they were one-time or annual numbers. Mr. Loewen said they are a combination. In some cases there are revenue enhancements as well. There are different examples shown that will show the different flavors of the types of projects. There are things that folks are doing across the state and they don't know that they belong on this list and we do not know they are going on. We need to do a better job of getting the word out that we are trying to track and understand the efficiencies that people are trying to work into their jobs daily. These are the ones that we know about. He went over the example of the Chattanooga project that went through the entire cycle. It came on to the list as an idea, was on the list as "in progress", on the list as completed and then Dr. Richard Brown and his staff were actually able to go back after it was completed and do an assessment on what happened. The idea was switching their student billing from paper statements to e-statements. They looked at a year-to-year comparison of the postage and printing costs in the Bursar's Office and saw that this simple idea saved UTC \$18,616. He explained that this was an example of a real savings and is a good hard number. It is more than a guesstimate. Vice Chair Stansberry asked why you wouldn't save that same amount in 2011 as you did in 2010. He explained that in 2010 they spent \$25,000 on postage and printing before they implemented. After they implemented, they only spent \$6,388 in postage and printing in 2011. Vice Chair Stansberry noted that he would claim that savings every year. Mr. Loewen explained that it is a recurring cost reduction. That

is money we use to spend every year and no longer need to. Trustee Anderson asked if we share this information between the campuses so that we get best practices. Mr. Loewen informed the Committee that he sends it out to the campus and institute Chief Business Officers after we capture the information and haven't done a lot in discussing as far as using this list as a way to share but people notice. Vice Chair Stansberry added that we shouldn't have paper statements anywhere because it seems like a very good thing to do. Mr. Peccolo spoke regarding Trustee Anderson's point and stated that we get the business officers together about three times a year and that would be an agenda item to have each campus do a best practice. Trustee Anderson explained that the benefit to his company has been peer comparisons and best practices. If you can do a certain practice on one campus chances are you can do it on the rest. There are unique situations but otherwise we need to challenge each other. Vice Chair Stansberry interject that every bank in the world is doing just that. Trustee Wharton asked why not develop overall best practices on recurring events. President DiPietro stated that it should be function of the system. The system should be fostering the environment and this should really be a good practice. The idea might come from Chattanooga but is the job of the system to get it out to all. Mr. Peccolo added that the exchange is very worthwhile. President DiPietro mentioned that there were a number of these examples. The Institute of Agriculture put in place the electronic approach for reimbursement of travel expenses. The Institute was used as a test and was then deployed in other units because there are cost savings involved. We need to make sure that we communicate among all the units these successes so they can hopefully adopt them. Vice Stansberry suggested giving a directive because he didn't understand persuasion. President DiPietro went on to say we can tell them to do it but there may be some unique circumstances. In our climate, it would be crazy not to try to save money.

Mr. Loewen then gave an example of a larger strategic change. He discussed the voluntary retirement incentive program in the Institute of Agriculture. It has been discussed in the media, etc. They also restructured staffing positions across the state. The savings for more than 100 participants was \$6.5 million. Trustee Wharton stated that what that doesn't show is there a real cost to this program as well. There has been a significant reduction of service long-term across the state and there are a lot less agents now. Mr. Loewen responded that his impression of the way that it was implemented was that Ag had boots on the ground in every county to talk about what was happening. It helped manage the change. Trustee Wharton continued by saying there was a short-term implementation plan. The employees that went part-time are going to go no-time with the passage of time and they will

not be replaced. Interim Chancellor Mitchell spoke up and said there was a 16% cut in Extension when we cut 60; we just cut 40 more. We have been marginalized to death. I cannot be proud of that accomplishment in the long-term. I have been involved in administration over the last 20 years. Chancellor Cheek is on a different position of this, but he understands it extremely well. I looked at the growth and tuition versus state funds over the last 20 years and basically it is something on the order of 60% in state funds and 400% in tuition. Higher education is being funded by tuition more and more. The Institute of Agriculture does not get any tuition. We did get big raises but we did it by downsizing. This is the third time that we have downsized in 15 years. We are going to go away over time if that trend is continued. We have done everything in the world that we can. The small increase we do get from the state is on our salary line but we haven't gotten any in a while. Costs are not covered at all so we just keep downsizing. If you run the numbers that I spoke about - in another 20 years that larger compound that averages to about 7-8% in tuition versus 2% in state funding. You do that for another 20 years compounded at those rates we will have been just marginalized. The difference in the base over 40 years is \$1 versus \$8. President DiPietro added that he and Interim Chancellor Mitchell have met with THEC to take a look at how the funding model could accommodate these non-formula units such as the Institute of Agriculture. In the times of reduction, they accommodate you with an advantage in that situation because you can't generate tuition. We are not scared of performing and can show you how we are managing these non-formula units. The question we are asking them is when we get growth in appropriations why can't the non-formula units be accommodated a little more just like you do when you go the other way. They accommodate on the down side but haven't on the growth side. Historically, it has been a long time since there hasn't been some kind of tuition adjustment every year. We are in that conversation with THEC now to see if there is a way to help out with the appropriators. Trustee Wharton made the point that these savings are really not good news. Our Extension Agents are the face of the University of Tennessee in every county. We hire a new agent right out of school and he or she is married and they have two children. That employee qualifies for food stamps. We are so far behind in what we have allocated to the non-formula units that it is a deep hole that we're in. It will be a long climb back because that is not an area where we are on the ground looking up at the cliff - we are still falling. Chair Horne asked again how the Institute is doing on fundraising. Trustee Wharton replied that we are way ahead but the problem is they are restricted gifts. The initial campaign goal was \$55 million and we have raised \$95 million as of now. Chair Horne again asked about Farm Bureau efforts. Interim Chancellor Mitchell answered that they are

very strong supporters of a variety of programs and scholarships to jointly funded positions. President DiPietro went on to say that the other compound of Extension is that it is supported three ways. Dean Cross went over this information at the last meeting. He continued by saying it is supported by state appropriations, program supported county money and the federal government. He expressed that Interim Chancellor Mitchell has apoplexy every now and then about the federal budget and what is going to happen there. They are very challenged. Interim Chancellor Mitchell advised that there is 15% in the House budget for the coming year. We are meeting with Senator Alexander's staff about helping to improve in the Senate budget. It is not a sustainable model and it has not been changed in 40 years and the Institute of Public Service is in the same position.

Chair Horne then asked how many development officers there were in the Institute of Agriculture and the answer was six. Interim Chancellor Buddy noted that they are performing at least the average and perhaps better. Trustee Wharton said, again, this does not solve the problem. Substantially all of the gifts are restricted and do not go towards salaries. President DiPietro spoke up and said that the richer counties, those that are better off in the state often will provide additional support to make sure they stay whole more or less. If you are in a county such as Scott it is hard for them to figure out how to balance their books and don't have the latitude like a county such as Rutherford. Some of the counties that are better off have helped fill the gap to provide more adequate services. Trustee Murphy stated that the other side of this is there is not a lot of ability to charge a user fee to the parties you are providing service to. Tuition is a user fee to our students and historically we have provided these public service types of activities out of appropriations. As you have said here today that folks are skeptical of government and don't want to pay taxes. If you don't pay taxes it is these kinds of services that go away because there is no one to pay for them. There is no free lunch here and if the federal and state governments are going to continue to cut and the people that receive the services can't afford to pay for it the service will go away. There is not another answer and I think that is part of the message that needs to go out. The people that are receiving the services need to know that they will go away if something doesn't change. The ones receiving these services are the same ones that are coming up with Tea Party rallies and saying they don't want to pay taxes. Vice Chair Stansberry said that he suspects Extension could produce a study and Interim Chancellor Mitchell interjected that there are many studies already. The average return is \$10 to \$1 from that particular technology. Trustee Murphy went on to say that if we publicized those studies the people receiving these services are not going to read them. We need to train our Extension agents how to communicate this information to

the ones receiving the services. They are who needs to hear it because they are the ones getting the benefit and are at risk of losing them because of the attitude that they can't pay any taxes. Interim Chancellor Mitchell made one final comment that yes they are receiving benefits but most of that benefit goes to society through reasonably priced food. The farmer does a better job and produces more products that push the price down. I can show you long-term charts that the consumers are the ones getting the benefits and the farmers stay on the treadmill trying to catch up with that. That is hard to communicate and it is something you can't explain on the way up in the elevator. I have struggled with this, but we are pounding on it. Trustee Anderson noted that maybe we should bring back the bumper stickers from years ago that said "Don't complain about farmers with your mouth full."

Mr. Loewen went on to show an example from UTK that is a completely different type of option: a partnership with TVA EnergyRight Solutions for Business. UTK and TVA are working on a 10-year roadmap to reduce energy demand. They are looking at cost avoidance in the future and the target is a 20% EUI (energy use index or BTUs by square foot) savings by 2014. It has a potential to have a large financial impact and is a different type of project from the others we have looked at. Vice Chancellor Cimino informed the Committee two years ago or longer and had an energy use campaign trying to reduce energy consumption on the Knoxville campus. Last fiscal year we cut \$1 million recurring out of the budget which actually went into lowering our overall need or other cuts. Those are contributions on a recurring basis or real savings that we are seeing. We want to go beyond that and TVA came to us last spring along with KUB and pitched this idea. They have been doing this EnergyRight program for residential for quite some time and even in the commercial sector. They have not really reached out to the non-profits or universities specifically. They are using UTK as a pilot for universities across their customer base. We are very excited about it. They really believe that the 20% savings is at the low end. We selected about a dozen buildings on campus and they go building by building and do an energy review analysis and set targets for us. The reason they use an energy use intensity measure and ratio is because square footage across the campus fluctuates. It is easy to say you saved 10% on utilities but if your square footage is fluctuating then you must normalize that to know what your savings are. This is a common measure in the industry to look at BTUs by square foot. It could easily represent \$8-10 million in 3 short years for UTK. Trustee Anderson asked if UTK heats by electricity or natural gas. Vice Chancellor Cimino answered natural gas or coal right now. Over the last few years we have been relying on natural gas because the prices have been lower and switch based on

what those prices are. There are contracts in place where we buy future contracts to have those in place. Chair Horne then asked about the plant on campus. Vice Chancellor Cimino explained that it has multiple fuel sources. We have fuel oil for emergencies only, natural gas and coal. Vice Stansberry began by saying that most of the people in the room know his opinion on natural gas. He went on to explain that there the University has 6,500 acres in Scott and Morgan counties that could produce substantial amounts of natural gas that we could simply take by displacement. The State simply did not let us develop it and lease the land. He went on to say the terms might go away because the market is not so good. Chair Horne asked who was going to lease it and Vice Chair Stansberry said Consolidated Coal's natural gas unit. There is no reason not to do that. Trustee Anderson said we need to continue to work on that. Interim Chancellor Mitchell said that they are meeting with a consultant and are hoping that the Department of Environment and Conservation will ask us to conduct research on these contentious issues such as how much environmental degradation is taking place. We will do that on our property and we have to have the well where we can control it. President DiPietro started these conversations but were disinclined to the hearings across the state and were wise to preserve our independent studies. If they will come to us we can now start drilling oil just like we raise cattle. It is moving along and Vice Chair Stansberry said it is a huge benefit. There are two pieces to the benefit. One is you get the value of the natural gas. Secondly, it would be half the price you are paying KUB. Chair Horne asked what else could be done to focus on this. President DiPietro said we are taking the right steps. He asked Vice Chancellor Cimino if there is a price tag on the plant here on campus and Vice Chancellor Cimino stated yes because we don't have a high pressured gas line. President DiPietro added that there is a price to change the facility. We can get the gas at that price but it would cost around \$20 million to the plant on campus retrofitted. Trustee Anderson asked if the plant we have is now the second biggest polluter in the county. Chancellor Cheek answered that it is a pollution source in the county and we could do that with the change. Vice Chancellor Cimino has gone through a very thorough analysis of that and we are at the point now of beginning the implementation of that plan. Chair Horne asked about putting it out for bid and let a private company take it over and sign a provision. Chancellor Cheek replied that UTK is looking at both options and will determine which is the best option between doing it ourselves or having it done privately. A private person is also making profit from it. Trustee Murphy said one of the critical pieces is that it may cost more to do it in a private environment, but if we can't get capital there is no other choice. That is one of the things that we are faced with now and

that is it is very difficult for us to get any capital from the state. Steam plants are not what Governors really want to deal with.

Trustee Wharton asked if the lead Extension Agent in every county could write an article for publication in the local newspaper that focuses on the point you made that the beneficiaries of the Extension unit are people who eat food regularly. Ed Burns regularly publishes in the Winchester paper regarding informative things. I am sure that he could easily write something. President DiPietro stated that they do that from time to time, but they don't do it in concert. Interim Chancellor Mitchell said we should develop a template for all agents. Instead of being in the paper about raising tomatoes we can write something about the bigger picture. You have to use the best technology to maximize that so our farmers can be worldwide. He told Trustee Wharton that they would get a template together and send to all the agents.

Mr. Loewen showed an example from UT Martin that was yet a different approach. It has enhanced revenue as well as effectiveness. A few years ago they started a Maymester program which is a 3-week mini-term between spring and summers. The reason it was started was because they wanted to see if they could get more students after spring to stay for the summer. They thought if they started this mini-term that it would be a way to keep more people present and have them continue on through the summer session. Since 2009 the summer credit hours increased significantly by 25%. Obviously, they utilized facilities that would have otherwise have sat empty. There are students that are progressing faster towards graduation by staying on campus and taking more classes. In addition to all that, there was a recurring net revenue of \$900,000. In this case we weren't saving money but are enhancing revenues and doing a better job in serving students and utilizing facilities. Trustee Wharton asked if the net revenues exceeded net variable expenses. Mr. Loewen made the assumption that they do but would have to check. Trustee Wharton said the net should be reported and Mr. Loewen agreed. There will be some costs with faculty instruction but there would not be any costs relative to facilities that were empty otherwise.

Mr. Loewen presented an Institute of Public Service example regarding their leased offices statewide. They are a statewide organization and have folks from the tri-cities, Memphis, Martin and places between serving local government and industry. A lot of staff are based on campuses, but in some places like Nashville and others are in leased facilities. After assessing the costs for leases, they closed a regional office and shut down that lease. They were able to reduce the square footage leased in the Polk Avenue Building in Nashville. This totals to

an approximate recurring savings of \$40,000 per year. Vice President Jinks: we have people all across the state so we are looking at how we can still continue to serve our customers but reduce our costs. We have a pilot program ongoing where we have allowed 10 or 12 employees to have offices at their home. We are going to be looking at productivity to see if any changes are necessary with that. This was a way that we could reduce operating costs without reducing services.

Mr. Loewen then discussed ways that the system had saved money. He explained that some of things have been happening university wide such as changing to electronic travel claims. Historically the process of submitting travel reimbursements was to fill out a bunch of paper, copied, stapled and stored it and sent it to someone else who copied, stapled and stored it. If you worked at another location, it got mailed to Knoxville. We now have a system where the papers are scanned directly into our accounting system and are stored electronically. On thousands of travel reimbursements per year we are saving mailing, routing, copying and storage of nearly 200,000 pages per year. There are savings and reduced aggravation from people not having to handle as much paper. Also, the reimbursements are turned around faster, especially for those that live outside the Knoxville area.

Lastly, he gave an example from the UT Health Science Center. They have had some intense reviews of some major administrative areas recently. There has been a very detailed review of their IT functions and organization. They have also looked at procurement and research infrastructure; how they award pre and post award activities. In all the areas they are beginning to implement some recommendations.

In closing, these are the types of issues that are being tracked. In your materials there is a matrix view of everything that has been done. These are the ones that we know about. We need to do a better job of communicating with folks that are doing these types of things every day as part of their work lives that we don't know about. We need to capture all the information.

- VII. **HR Update on Performance Reviews**—(Exhibit 4)—Chair Horne then asked Chief Human Resource Officer, Linda Hendricks, to report on HR and performance reviews. He expressed personally that it was great that the University has a merit pay pool. CHRO Hendricks addressed the Committee and reported on the progress that every employee statewide receives a performance review. She pointed out the breakdown of staff and faculty for all entities. Overall, 94% of staff had a performance review this year and 96% for faculty. She then drew the Committee's attention to a footnote regarding Chattanooga. They are at 73% for staff but that was a conscious effort on their part to

stagger their review dates. Some performance reviews were completed in August and those have not been entered in the system yet and there are some that will not be completed until the first of September. That is a matter of timing, so by the next meeting those numbers should be up.

The good news is for those that are not at 100% we know exactly why. We have a list of every single employee that has not had a review. I have a copy and the Human Resource Officers at those campuses has a copy as well. There are some reasons such as they are out on Family Medical Leave Act and were not here to have their review and it will be conducted when they return. We have a few staff members that are under disciplinary action right now and they are finishing that to see if it leads to termination, etc. We know the status of each of the ones that have not been completed. These are much better numbers than the ones you saw a year ago. Trustee Murphy asked if all of the explanations were along those lines as opposed to we just didn't get around to it. CHRO replied absolutely. She went on to say that the Chancellors have really stayed on top of this. They are provided a monthly report and they can even have it broken down by individuals and as detailed as they want it of every person that has not had a performance review. They are holding folks accountable and the President has done that for University Wide Administration. We had the lowest percentage last year and you can see it is at 100% this year. Senior Leaders have said this is important and we are going to do this.

The first step was saying that performance reviews are important and we are going to ensure that every employee has one. We have a statewide team and are rewriting every job description. The job descriptions are very old and we are writing what we call competency based job descriptions. It describes what the employee is being held accountable for and it is clear in terms of exactly what the employee has to do to meet or exceed. It takes a great deal of work but it is so important in communication between the supervisor and the employee. It helps show what meeting and exceeding expectations look like. Trustee Murphy asked for clarification that meeting expectations is more than the employee just being at work. Meeting expectations is an A and it means the employee is totally competent in doing everything that is expected. Exceeding is above and beyond what the requirements are for the job. That is part of the education too because our employees think that meeting expectations is a C and it is not. It says that the employee is totally competent and performing well in all areas.

There are two huge components in the training of supervisors this year. Some don't do a good job of differentiating performance and thinks everyone gets a needs expectation or everyone exceeds and not everyone exceeds. Part of that is clearly defining what the competencies are and what it looks like in terms of meets and needs expectations. That is the focus on training and will continue to hold our supervisors accountable that all employees get a review. We must improve the quality of that review. Some areas do it well and then there are others require a lot of work. Chair Horne asked for the number of terminations per year due to performance. CHRO Hendricks said yes there are terminations due to performance but don't have the number available. We will get you that number but it is an area that really needs training. You don't go straight to termination. Performance management is giving an employee opportunity to improve and that a new hire is oriented into the role and have what they need. There is a lot of work to do in regards to supervisor training and it is something that we have not done broadly. We started with the \$8.50 increase that was a recommendation from the Compensation Advisory Board. We trained every supervisor on every campus and institute on how to do deliver that message. Not only to those who would receive the increase but also to those that didn't. Why did we start there, why is it important, etc. There is a great deal of training that needs to be done in performance management and disciplinary action. Chair Horne said that the merit pay does distinguish performers better and CHRO Hendricks replied absolutely. It will make those reviews more important for the supervisors and employees because it can affect what you get at the end of the year. Vice Chair Stansberry asked how do we protect those reviews from the Open Records law. Mr. Loewen replied that if someone asks to look at your personnel file you have to be notified and you can be present while someone reviews your file. Performance reviews are legally open records. Trustee Wharton commented that it makes no sense. President DiPietro added that he didn't think it was the intention of the law to do that and we have been talking to a few elected officials about the problem. It is very cumbersome. At the Institute of Agriculture there were many department heads that were worried about that aspect of their duty that I had to push the Deans for them to do meaningful reviews. In a review you speak about the employee's accomplishments, goal setting and it is also about being critical. Sometimes the material that you put in about performance when trying to put together an improvement plan is between being critical and being fair and equitable as part of the process. The process is something that you really don't want to end up in the newspaper because it is not fair to the person. If we want to have a track record with an employee that is not getting it done, we have to be able to produce the records of performance in our system. Trustee Wharton

asked for certainty that this is the correct interpretation of the law. Trustee Murphy said very certain because of the Supreme Court case. President DiPietro mentioned that I could fight this but you will probably go to jail. Trustee Murphy explained that it is a law issue. The problem is if the media thinks there is a bad employee they want to be able to look at their files. We traded good management for the ability to get information. President DiPietro said the people that have been talked to about this can't believe it is there. We might have some traction to get it fixed in Nashville because I don't think it was the intention of the law to do that. Trustee Murphy stated that it was one of the first things that got litigated under the law. Dr. DiPietro commented that he did not know that. Trustee Murphy added that we talked about before is it is not just getting folks to do the evaluations but we are also training the supervisors on how they should evaluate employees and I assume that we are evaluating the supervisors on how they evaluate their employees. Some supervisors don't like to deal with it and just rates everyone as great. If that is done there is no real system in place because no one is being accurately evaluated. Training supervisors is key to making this work. He commended CHRO Hendricks and staff because they are using the right approach for real progress. He wants to see us get past just because you have a job at the University you don't really have to do anything.

Trustee Anderson asked if there was a system that would catch supervisors whose evaluations are skewed. CHRO Hendricks replied that we do have a system. In fact, this year Vice Chancellors on every campus reviewed the merit pools for their entire area. You could see if there was an entire department where everyone gets exceeds and if so it was red flagged. You could see if whether there was a normal distribution. We can roll it up big or to as small of a group that you want to see. Trustee Anderson added that he hoped there was a plan for booster training as time goes on and CHRO Hendricks said absolutely. She then said that all supervisors are going to be required to go through the training but we are going to work with the ones that need the most work. There are certain areas that we can tell and to be honest it is supervisors that have never been trained and they don't know how to conduct performance evaluations. They are doing the best that they know how to do. They do not know how to differentiate performance or how to tie it back to the job description. That is why the key component is training and then we hold people accountable.

- VIII. **Group Insurance and Campus Wellness Plans**—(Exhibit 5)—Chair Horne then introduced the next agenda item. He went on to say that the thought was, could the University self insure and provide the same insurance program more cost efficient. Mr. Peccolo began by saying the University of Tennessee participates in the State of Tennessee

group health insurance plan provided for in Tennessee Code. The Tennessee Code also says that it will be the only plan for state employees. Chair Horne questioned why and Trustee Murphy interjected that they want a bigger group to keep their rates low. Chair Horne asked if we could do it cheaper if the University did it themselves. Trustee Murphy said it might be possible but the state will not let us take our employees out of their plan that means if we could do it cheaper then they will have to pay more. The only real issue is if the state would provide some flexibility in it. Chair Horne noted that we could ask if it would save the University money. Trustee Gallimore said that the other thing is if you did have a UT system separate and has some bad experience – you know where you would run back to. Vice Chair Stansberry stated that the University would not save money and the state would not let us do it. Mr. Peccolo added that there are 300,000 employees enrolled in the state plan and that includes state employees, higher education and some local government and some local school systems. The plans are state, higher education and local government and schools. Some of the local governments thought they could do it cheaper and left the state plan years ago. They let them back in, but they are a separate principal now and they pay more than the state plan does. The state is concerned about their cost because it went from \$600 million to \$1.3 billion over the last decade (2001-2010). The last four years or so they have had an active program evaluating the benefits and trying to bend the cost curve to be more in-line with the funding curve. The result of that has been a lot of plan changes. The state has done away with the HMO program, adjusted deductibles, and changed the structure of the plans from employee and family to higher differentiated groups. There are now two plans called the partnership and standard plans. The partnership plan is one that they are trying to get employees and insurers to take more interest in their welfare. It requires a baseline physical and then they give recommendations for improvement. You do not have to enroll in the partnership plan but the only other one is the standard plan with higher premiums.

The state is trying to do something about it, but the University has its own wellness programs. Mr. Loewen explained that a summary came out of CHRO Hendricks' area in April 2010 of wellness programs at UT. Each of the campuses and institutes have their own mixtures and they fit into a few standard areas; tobacco use – helping employees to quit smoking, diet and nutrition, physical activity and exercise. Also at different locations there are various health screenings that are available to staff and faculty at different times of the year. Additionally, there are clinics and different kinds of treatment that varies. UT Chattanooga has the same as UTK and UTHSC. All of the units are working on developing wellness plans that are beneficial to the

employee. We are trying to put our resources together to assist our employees in their own health management. They are not really tied to the health premiums in the same way the state's plan is. There is a report that can be sent to those who would like to see it. CHRO Hendricks explained that even though every campus and institute has their own initiatives there is shared learning from that. They are doing all kinds of things. We have recommended a statewide advisory board that captures the information to share best practices. We are talking about partnering with the American Cancer Society on their CEO Gold Standard Program that is a five pillared program. This was taken to the Compensation Advisory Board as a workforce improvement and because of other initiatives that were underway at that time it was delayed until the September meeting. The report that Mr. Loewen has goes back before our Compensation Advisory Board but will be presented in the fall for recommendations. There are good programs on every campus and institute now and we need to leverage the best practices across the state.

Chair Horne asked who is the state's insurer and Mr. Peccolo stated that Blue Cross Blue Shield is the administrator but the state is self insured. The University's piece of the premium is approximately \$9 million a month. He mentioned that the pie chart that was shown earlier showed state appropriations and when the state's and employers' cost goes up we get a separate appropriation for it. Mr. Loewen interjected that the University received \$4.7 million in this fiscal year.

Chair Horne then asked what percentage does the state pay per individual for their insurance and Mr. Peccolo added 80%. He explained that it is also contained in the statute that the state will cover 80% of the employee's coverage. Trustee Wharton questioned how much it covered for the employee's family and Mr. Peccolo said it is 80% no matter which premium they pay. Chair Horne went on to say that is a great benefit for the employees because private companies don't do that. Trustee Wharton asked what the premium cost is monthly for an individual with no dependants. Rob Chance, Director of payroll stated that if the employee is in the partnership plan they pay \$102.30 each month. If the employee is in the standard plan which is the higher premium plan where you don't have to do the screenings, etc. the cost is \$127.30 per month and the state pays \$466 per month. Vice Chair Stansberry said that is a huge cost and leaves opportunity for some outsourcing. Mr. Peccolo stated that if you put together a total employee compensation package, we may not have to pay market when you consider the whole package because of the generous health benefits. Trustee Wharton disagreed and said if you say we pay market – our competition is University of Georgia and University of Virginia and they have these same benefits. President

DiPietro said that they will hear about a Study Commission next week that looks at compensation and gaps across the board and will compare apples to apples. Trustee Murphy agreed and said we have to look at our competition but it is not necessarily the way the public and legislature view our job positioning. They look at it as you pay them and then offer great benefits so it is better than an employee would get in the private sector and it is. There is no question that some of the comparable positions in our system if you combine the pay and the benefits it is a better position. If you are comparing faculty it is not compared but if you are comparing staff it is. That is the difference because faculty and some staff get recruited. Technical staff that is in a competitive type of position and then you have people that are in support staff positions that are compared to downtown Knoxville, Martin, Chattanooga and Memphis. That is the difficulty because we have various groups of people who have different competitive factors. Unfortunately, from a benefits standpoint we have a one-size fits all requirement. The other way we can look at is do we deal with the other component which is the pay component. It is the one thing that we do have more control over. CHRO stated that when you actually see those survey results next week, it will break out compensation and benefits and it does exactly what Trustee Murphy said. For staff it is usually local or regional. It is general industry that you are competing with and we did very well compared to general industry and benefits. We did not do as well with higher education. You will see it broken out by faculty and staff and it will show how we compared to general industry and higher education. Some areas we compared favorably, others we are middle of the road and there are a few that we are behind the market on our benefits too.

Chair Horne then asked about turnover. CHRO replied that she has it broken down by campus and institute. She then said that for national statistics our turnover was lower and she offered a breakdown. Our statistics for higher education and healthcare are lower than the national standards in turnover.

Chair Horne then asked Mr. Peccolo if there was much hope for an initiative in the area of group health insurance. Mr. Peccolo replied that absent some statutory change there is not. Trustee Murphy noted that there is only one option. Are there any discreet areas that we can privatize and not do in-house? That would be the one area that could possibly save money. Again, that is not a given that we could save money, but the system and campuses should look at. We have looked at it before, but not in a comprehensive way. Chair Horne asked if it should be put on the next meeting's agenda and Trustee Murphy said yes the Committee should start looking at that. In this world that we are in the University can no longer be an employment agency. Vice

Chair Stansberry advised that he can get a statement of allocated costs for any department that you want to look at. All bets are off the table. Chair Horne informed the Committee that he had a good discussion with the CEO of Duke Energy. He said we ought to privatize with TVA. Vice Chair Stansberry said the South thinks that too it is not a new subject. Trustee Murphy said this Committee does not have the facility to make an impact.

- IX. **On-line Learning**—(Exhibit 6)— Chair Horne mentioned that he had wanted an update regarding on-line learning and wanted to know what the University's strategy is. President DiPietro voiced that in his opinion on-line courses are a sound strategy, but the opportunities are different at Knoxville, Chattanooga, Martin and Memphis. As with any start-up business there are two decisions related to whether to put a program on-line: 1) Does it make sense for our enterprise and do we have customers, 2) Will the program/course break even or, ideally, bring in new revenues. The answers to those questions are not always "yes." On-line learning is a tool and mechanism but campuses need to evaluate potential programs and decide what belongs online.

One consideration is whether to develop new certificate programs or to reproduce programs that are already in place in the classroom environment. There are people that want a certificate but don't care about getting a Master's degree. Online courses and programs are not always the most cost effective approach and have to be studied. The problem that we have to hurdle is that it takes venture capital to get it off the ground much like a new business and we have not figured that piece out yet.

Trustee Wharton asked if we could study the content of our on-line programs versus the programs of University of Phoenix. Provost Susan Martin stated that they would report on UTK's niche and it should address the question. Sally McMillan, Vice Provost for Academic Affairs then gave a brief overview. She noted that over the past ten years the UTK campus has focused on the development of niche graduate programs that are targeted at adult working students many of whom are not in Knoxville. She reported that the process starts with market research to assess the level of need for the program. She reviewed a list of those graduate degrees and certificates and noted that many have a long history and a great deal of success and some are relatively new. There are two new doctoral practice programs that are starting this year: Doctor of Nursing Practice and Doctor of Social Work.

Separately from these graduate programs, there have been developments in creating online classes on the Knoxville campus.

Faculty members have been innovating with the use of on-line technology on their own. For example, the Knoxville campus is now teaching some modern foreign language classes in a hybrid mode. The students are going to class twice a week and once a week they are doing on-line activities that are very focused and targeted. The faculty received some grant funding for developing these courses and also had support for the Instructional Technology Consulting group and the Tennessee Teaching and Learning Center.

Additionally, there have been developments in what was the "Independent Study" unit operating out of continuing education. Courses offered through this unit began as "correspondence courses" but, over the past 10 years, most have moved away from the "paper and pencil" format to online delivery of course information. Early this year, Dr. Martin charged McMillan to take a look at the operation to see if it still made sense to have this kind of independent study format. Two task forces spent quite a bit of time reviewing operations and ultimately decided that it did not. UT Knoxville is in the very late stages of closing down that operation. The goal is to transition those independent study classes to a semester-based format that will be offered through the standard registration system. They will be targeted primarily at Knoxville students, but will be available to others who can register as "visiting students."

Over the summer, an intensive institute was offered to Knoxville faculty who want to convert courses to online formats. Some of the faculty who participated were converting "independent study" courses to semester-based formats while others were converting courses that have traditionally be taught face-to-face. This year, we had 28 faculty members in the program and anticipate it being an ongoing program. Part of the commitment of that program is that participants will actually teach an on-line course in the coming year.

Trustee Wharton asked how you rank our courses with the University of Phoenix. Vice Provost McMillan explained that UTK is serving different needs than the University of Phoenix. The University of Phoenix focuses exclusively on online delivery of courses and programs. UTK is primarily a residential campus that serves both graduate and undergraduate students who are pursuing degrees. Do we have the same programs they do? Absolutely not and that is not where we anticipate heading.

President DiPietro said one fundamental that is different from those programs and what we do at UT collectively: they put courses up on the Web and the instructor may not be a faculty member. You could have a staff teaching assistant. The interface with scholars is different

than our expectation is at the University of Tennessee and that is a fundamentally different approach. The fully online programs at UTK are geared primarily to working professional graduate students. UT Martin does offer a degree completion program for undergraduate students who are place bound and/or want to earn a degree on-line. Even at Martin students may need to go to campus for some courses but the majority of the course work can be completed on-line. UT is in a different game than the University of Phoenix and Western Governors. What we put up is quality material because of the people we hire to teach these courses. I think it is a different experience that way. Hybrid courses are different from the standpoint that young people today, at the undergraduate level particularly, like to learn that way. They want it digitized. I think they enjoy the fact that they can do a hybrid course and still have face-to-face time as well as time using these media that they are very comfortable with. I don't see our ability to become a Phoenix moving our place ahead. We are a different kind of place, but I do see the advantage of being able to deploy this in target areas. On the list, Aerospace Executive MBA – I am going to guess that there are a lot of people who are in this program are working out there somewhere as engineers and can't get to campus and study for up to two years. They are getting a degree while they are working. We have to look at ourselves differently. The University of Phoenix wants big enrollments in things like psychology at the undergraduate level and English so they can drive their enterprise financially.

Trustee Murphy added that from a philosophy standpoint that is a core difference obviously. One of the things that we have to be focusing on going forward is it costs more and more to educate students and state appropriations continue to fall. The hybrid courses are one of the things that provide the mechanism to do it. Is there a way to use the hybrid model to increase your throughput without having to increase faculty resources? Provost Martin said absolutely. Trustee Murphy continued and said if we could accomplish that and still maintained quality then I think we will have achieved a whole lot of what we need to be looking at. This committee needs to continue to focus on what are we really doing to maximize the potential of that activity. I hear what you are saying but what it sounds like right now is it is a disorganized and unfocused with each professor doing their own thing. Now, you are just starting to bring that all together and maybe that is a misperception of what you said. Provost Martin said I think we are responding to the faculty interest. That has been a bit surprising because even some of our senior faculty have shown an interest in this kind of education and I think it is very encouraging. The minute that we put that opportunity out there they really flocked around it. I think we are finding from both students and faculty that there is an interest

and have now reorganized what was not a functional unit to try and serve that need. Trustee Murphy agreed that it was key that we have to be deliberate about it opposed to letting everyone do their own thing. Provost Martin added that Trustee Murphy was right that they are in the early stages but have a plan.

Chair Horne asked if faculty were worried about it affecting their jobs. President DiPietro admitted that some were more reluctant than others about technology and their ability but more and more that is going away. If faculty sees there is value in doing it this way they will jump on. Trustee Boulet said that he has been using Blackboard for almost ten years. The fact that you can send an e-mail to your entire class is a huge savings. I know a lot of faculty that use it just for that. Then you discover that you don't have this assignment ready for class and just tell the students that you will post it later on Blackboard. It is a practical useful tool. In engineering at least, more and more people are starting to use it. President DiPietro said that Trustee Boulet actually grades exams during Board meetings. Trustee Murphy said that in his past discussions with the faculty one of the things that has changed is that they have recognized the importance of finding ways to do things to educate more students without increasing more faculty. They recognize the same problem we are facing that there is not a wad of money that we are going to be able to pull out so we are going to have to do more.

President DiPietro said the place we need to be with online courses and programs is focused on ways to be more efficient as part of the equation. It is not looking at the Phoenix and Western Governors model that says we are going to have a business on-line because it makes a lot of money. Chair Horne made the comment that it had been discussed about the University having a separate on-line business and President DiPietro said he doesn't feel it is appropriate at this point. The key here is can we be efficient teaching more students. Vice Provost McMillan noted that the model for foreign language came from that situation. We know we have bottlenecks in languages and we are trying to find a way to address the issues in as an efficient way as possible. Chair Horne asked if faculty is paid extra to teach on-line. Vice Provost McMillan said that they are working on a funding model. We have a couple of incentive models out there and neither one of them is right yet.

Provost Martin added that our Life of the Mind program is an example. Students are asked to read the book and that it is required. We now have these on-line modules they can do throughout the semester in addition to reading the book. It allows us to teach them about plagiarism and there is a model on civility and a module on how to use

Blackboard. This is a real quality and retention enhancer that is totally on-line. Actually, it allows us to do something that we never had personnel or staff to do in order to make that first year a better experience. There are all kinds of ways that you can use on-line technology.

Chair Horne said that registration and admissions have taken place. Are there courses that students cannot get? Provost Martin noted that Vice Provost McMillan monitors that daily. Trustee Murphy added that the hybrid is one way to deal with that. Vice Provost McMillan clarified that the courses on the handout are on-line program where you can earn a degree. Where we are trying to put more focus that we haven't in the past is on courses on-line. This is the first time that we have reported this data and on the second page you can start to see what departments are offering on-line courses that are not part of an on-line program. President DiPietro asked her to clarify if enrollment is up and she replied yes. Vice Chair Stansberry said if you can't get second year English and you have to have it you can take the course on-line.

Trustee Murphy said that when several of the Trustees went to the University of Maryland they talked about being more efficient by finding ways to make more courses available on-line. I think they actually require students to take an on-line course. They were looking at how to provide more with the same resources. On-line provides the vehicle to do that and that is what we need to be focusing on as one of the ways to be more effective. Vice Chair Stansberry suggested that UTK follow-up on bottleneck courses. Trustee Murphy agreed that is the first place to start and Vice Provost McMillan replied that they are. Modern language is an example of that. This fall we are looking at bottleneck courses that occurred over the summer. One of the problems is in the lab sciences. We have a lot of students who are more interested in science and technology than in the past. Trustee Murphy said that is what we want. Vice Provost McMillan agreed but if they are in lab sciences they have to be in the lab. There are some physical issues that have to be addressed. Trustee Boulet added that about eight years ago a physics colleague of his had a computer to control the experiment and students signed up for 15 minutes slots. The IP address of the person signed up for the slot is the only one the computer would recognize. It was an experiment for on-line experimenting but it worked. There are a lot of resources to set up something like that. Trustee Wharton said that labs may need to be available at inconvenient hours. Vice Provost McMillan said that they do have them.

Chair Horne asked the President what UT Martin and UT Chattanooga were doing regarding on-line. President DiPietro responded by saying

he thought UT Martin had more courses on-line particularly the hybrid model on their campus. They have an undergraduate program in university studies that is a degree. They have been at it for some time. UT Chattanooga is in the middle.

- X. **IT Update**—Chair Horne noted that unless there is any new business, he did not know of any, that the last item would be the IT Update. Mr. Peccolo began by saying that Dr. David Millhorn, Executive Vice President had asked Ron Loewen to chair a committee regarding the IT structure in the Knoxville area. President DiPietro asked to set the scene for the update. He began by saying that there was a Board meeting where there was a report that there was a \$20 million savings that could be provided at the system level if everything went the right way. Those numbers are out there and need to be recalibrated. Chancellor Cheek and Vice Chancellor Cimino have spoken to me a few times about Knoxville needing its own Chief Information Officer. We had rolled the system and UTK together as part of the cost initiative. Chancellor Cheek and I decided we would put together a team of people with Dr. Millhorn leading it. Mr. Loewen is chairing a group to study if it is possible and can it be done without spending additional money. Chancellor Cheek and I are both in total agreement about it not costing additional funding. If it is a modest amount we might approve it. There is a logical argument why it needs to be done. There is a tendency to think that IT at the system level is not quite responding to Knoxville's needs the way it needs to and vice versus. There is some conflict about that so there is a group that is in the process of studying it right now.

President DiPietro then asked Ron Loewen to give the update. Mr. Loewen explained that they are in the process of putting the groups together and scheduling the kick-off meeting. We do not have the team finalized yet and that information should go out today. Dr. Millhorn and I will send out a joint memorandum regarding the IT Task Force. Over the next few weeks, we will do an assessment of how IT functions are organized in the Knoxville area. For those that aren't familiar with the way that IT is organized within the University UT Chattanooga, UT Martin and UT Health Science Center has a Chief Information Officer that reports to the leadership on their campus. They have their own IT resources and infrastructure, but they are coordinated with the rest of the University through the system's Chief Information Officer, Scott Studham. CIO Studham coordinates overall IT policy, security issues, large statewide contracts (combined buying power) and some corporate IT functions. That is how those campuses relate to the system's IT leadership in Knoxville. UTK does not have a Chief Information Officer or IT organization that reports directly to the Knoxville campus, which creates an odd situation that the one campus

in Tennessee that has the largest and most complex IT operation does not have its own, but is in a combined organization. Now, we are trying to find a way where the system function and personnel can focus on system wide and corporate issues and Knoxville can focus on the infrastructure and the systems that are required to keep UTK running. It is about a \$36 million operation and about \$31 million of it is focused on the infrastructure that keeps the Knoxville area going. In addition, \$5 million is focused on the system wide and corporate activities that are needed to manage IT for the entire system. The group that Mr. Loewen will be working with will look at the best way to organize the existing resources around the campus and system's needs. In a sense we can get part of the organization more focused on corporate system issues and part of the organization focused on local campus issues without creating redundancy and duplication. We do not want to end up with at the end with the system having a server farm across the street from the campus server farm. That is part of what we are doing with the IT Task Force over the next few weeks. Trustee Wharton commented that he hoped every campus is standardizing the same with respect to hardware and software to the extent possible. Mr. Loewen replied that part of the system function is standardization to the degree it makes sense. President DiPietro added that as long as the hardware all talks to each other it shouldn't be mandated what brand of hardware to buy. He went on to say that his biggest worry is the integrity of the system from the standpoint of security. If the system goes down or blows up we might as well send everyone home because nothing gets done. It is much better today than it was approximately five years ago stability wise with e-mail going out and the worry that they weren't being delivered. The security aspect and the active directory approach of how we manage our systems so that our people will understand that we have a network that is very important to the business every day. If we have downtime, we lose money and the opportunity to teach students, discovery and outreach. It is like lights, water and heat it has to be that reliable. Trustee Wharton said that he was looking at it from a user's standpoint in respect to logging on at different campuses and having the same information as they would at their own campus.

Mr. Peccolo agreed with the President but addressed Trustee Wharton's point about standardization. The University's ERP/SAP system is the main system and is maintained by the system. Outside of that we have a student Banner and research systems and those are separate on the campuses. My concern is for the campuses to define what meets their needs, but let's have a common definition of what is what so that when it is compiled what Knoxville calls a full time equivalency student is the same as what UT Martin calls it. The system has to have it to pull reports for third parties and that is a

challenge. Obviously, security trumps everything. Trustee Gallimore asked if there had been a security audit from an outside firm. Mr. Peccolo said there is a security group in CIO Studham's area that does reviews of security on the different campuses. Mr. Loewen said that he was sure that one had been done when CIO Studham first came to the University from the outside. In a sense, the system security function operates as an outside check on campuses. He mentioned that when he worked at IPS they came in and did assessments of the security there like independent auditors come in to audit the books. Trustee Wharton brought up that three years ago at an Audit Committee meeting the question was raised about do we know what is on the individual servers across the system on every campus. The answer was no we don't. To me that has a unique risk and an audit for both things really needs to be done. Mr. Loewen said no we don't know because it is such an open, diverse, large environment. An example of that, years ago I got a call from AP in Philadelphia who told me that one of our servers were getting hit with massive amounts of pornography and asked for a comment. It turned out that the Law Enforcement Innovation Center was doing a course on internet crimes against children. The server was doing something that we weren't aware of. Trustee Wharton said that is my point. Mr. Loewen said but someone outside of our organization knew about it. Trustee Wharton added that a surprise like that is an unpleasant one. Mr. Loewen went on to explain that he is not in the IT field but that EVP Millhorn has asked him to come in and facilitate looking at the Knoxville/System organization and not the overall University. Trustee Wharton asked if there was an agenda for Knoxville. Mr. Loewen said that they would need to make sure who is responsible for what in the Knoxville area. Chair Horne asked if we are employing a Chief Information Officer for the Knoxville campus and President DiPietro replied that we are studying the system Chief Information Officer and the Knoxville Chief role of Information Officer. We have asked Mr. Loewen and a group of people and other folks like Chris Cimino and others to think through this and figure out how to do it, what would it cost and does it make sense operationally. That is where we are and an absolute decision has not been made yet. Chair Horne asked about centralizing and decentralizing and President DiPietro said some you do and some you don't. If each one of the components of the University of Tennessee decided they wanted different levels of security and it impacts the others negatively because of the way it hooks up in the system it would not be palatable. At one point, the system has to say here is the standard for security and it is what you have to live by and we will do audits and checking out routinely what is on your servers to maintain the integrity of the computing system. Those are centralized deals where we have to feel comfortable at the system level with the input of the chancellors that we are doing the right thing. You could spend

umpteen amounts of money on security as you know with your businesses. You have to measure risk and what you can afford. That is what we have to determine when we look at the University's security. The system needs to have a role in saying what the standard is because that is a function of what we do.

Chair Horne asked what kind of equipment we give to faculty and staff in terms of Blackberry, Ipad, etc. It varies by department and faculty. It is like the old typewriters, blackboards and overhead projectors we use to provide for them and now we buy computers for them. A lot of it is personal preference as to which format or device they prefer to use. Chair Horne then asked if we buy whatever they want. President DiPietro said it depends on what platform they prefer to work on. We require that they hook up to the active directory on any machine they use on the network due to security issues. That means they can't put any kind of software on machines that we have because there is administrative oversight by the IT Team and it helps us stay secure. We don't really say that thou shalt only use IBM or Mac. Chair Horne then asked what cellular phone service the University uses. A lot of time between here and Nashville you lose calls with UT folks. President DiPietro said that most of our people that require a device for their positions are moving towards a cellular phone allowance and they can use whatever carrier or plan they want to. We do not have a say in it when they are on an allowance. Vice Chair Stansberry asked if there were not savings to be had from using a master contractor. President DiPietro said typically most carriers give UT employees discounts. Mr. Loewen added that being a statewide organization, we have found that a service that works well for Chattanooga might not work well for Martin. In IPS, where there are people working from one end of the state to the other, a municipal consultant from East Tennessee might need Verizon and someone from West Tennessee might need AT&T. Trustee Murphy commented that with the allowance the phone belongs to the employee so they don't have to have two phones. If you have a state phone you cannot use it for personal business. Vice President, IPS, Mary Jinks interjected that they went to the allowance several years ago. The other savings from the allowance is that there isn't the process of getting the invoice, reviewing, processing, cutting a check and the accidental personal expense so we cut it out. Vice Chair Stansberry said that Trustee Gallimore made a comment that we shouldn't be totally relying on internal auditors for IT security. We should consider if we are losing something by not hiring an outside firm. Chair Horne said that they would ask CIO Studham to come to the next meeting to address the issue. Director of Auditing, Judy Burns said that Scott Studham will be at the next Audit Committee Meeting and will address the topic of information security. He has developed a new strategy since the last

time he spoke with the Audit Committee and so we invited him back to present so we can address this issue at the meeting.

Chair Horne confirmed that this is complicated and not a simple situation but need to stay focused and will look forward to the presentation at the Audit Committee.

- XI. **Other Business**—Committee Chair Horne asked if anyone had any other business to discuss; none was noted.
- XII. **Adjournment**—Committee Chair Horne adjourned the meeting.



Charles M. Peccolo
Treasurer, Chief Investment
Officer and Interim Chief
Financial Officer