

MINUTES OF THE GOVERNANCE COMMITTEE
BOARD OF TRUSTEES

THE UNIVERSITY OF TENNESSEE

February 8, 2007
Nashville, Tennessee

The Governance Committee of the Board of Trustees of The University of Tennessee met at 1:30 p.m., Central Standard Time, Thursday, February 8, 2007 in the offices of Boulton, Cummings, Conners, and Berry, PLC, 1600 Division Street, Suite 700, Nashville, Tennessee.

I. CALL TO ORDER

Mr. Don C. Stansberry, Chair, called the meeting to order.

II. ROLL CALL

Ms. Catherine Mizell, Secretary, called the roll, and the following members were present:

Ms. Johnnie Amonette
Mr. Spruell Driver
Dr. John Petersen
Mr. Don C. Stansberry

Due to a scheduling conflict, Mrs. Loughry was unable to attend the meeting.

The Secretary announced the presence of a quorum.

Also present at the meeting were Trustees Jim Murphy and Charles Wharton and Dr. Gary Rogers, Chief Financial Officer.

III. APPROVAL OF MINUTES OF PRIOR MEETING

Chair Stansberry called for corrections or additions to the minutes from the November 3, 2006 meeting of the Committee. There being none, Mr. Driver moved approval of the minutes. Mrs. Amonette seconded, and the motion carried unanimously.

IV. REVIEW OF REVISED SYSTEM ORGANIZATION STRUCTURE

Chair Stansberry asked Dr. Petersen to discuss the organizational charts included in the meeting materials. (Exhibit 1). Dr. Petersen stated that the charts illustrate that there are two senior positions among the system administration, the Executive Vice President and the Chief Financial Officer. He stated that the other senior administrators operate in four areas, operational, programmatic, financial and

organizational. All vice presidents with financial responsibilities report to the Chief Financial Officer. All vice presidents and chancellors with operational responsibilities report to the President and interact closely with the Executive Vice President. A discussion ensued regarding the need to clarify the reporting lines on the chart to illustrate that the operational officials, such as the Chancellors and Athletic Directors, report to the President and not the Executive Vice President. After further discussion, Dr. Petersen stated that the organizational chart would be updated to clarify that distinction and the revised chart would be included in the materials for the Board meeting in March.

Mr. Driver asked the President to discuss the role of the System Interface Committee. Dr. Petersen stated that the committee maintains close communications between the IT and financial counterparts for the campuses and the System.

V. CONTINUED DISCUSSION OF SENIOR ADMINISTRATIVE POSITIONS SUBJECT TO ANNUAL ELECTION BY THE BOARD

Ms. Mizell stated that in prior meetings of the Committee, there has been discussion about the two types of officers among the system vice presidents, those who are elected by the Board (“elected vice presidents”) and those who are appointed by the President (“staff vice presidents”). At the last meeting, the Committee discussed the issue of which positions should be elected by the Board and whether changes should be made to the Bylaws. Dr. Petersen discussed the possible alternative outlined in the memorandum provided to the Committee (Exhibit 2). To further illustrate the alternative, Dr. Petersen discussed the current candidate search for a Vice President of Research and Economic Development. He stated that the position does not necessarily need to be an elected vice president. He stated that once a candidate is chosen, he cannot immediately make the appointment because Board approval is required. The Committee discussed the importance of maintaining oversight and a tie to the Board for the following positions, the Executive Vice President, Chief Financial Officer, Treasurer, and General Counsel and Secretary to enhance the Board’s oversight of the President and the leadership of the University.

In response to a question, Ms. Mizell stated that boards of peer universities she has reviewed do not elect as many positions this Board does. Mr. Driver discussed the merits of having all or most of the staff vice presidents initially approved by the Board thereby providing more opportunity for broader input to the process for more stakeholders. Dr. Petersen stated that all of the vice president and chancellor searches that he has implemented have included a Board member on the search committee. He stated that his intent was for Trustees to be involved without bringing the Board as a whole into the selection process. He agreed, however, the some positions warrant a greater degree of oversight and involvement by the Board because those positions can assist the Board in overseeing the President. The Committee discussed the level of involvement of the Board for initial and subsequent

compensation for the chancellors and the vice president for agriculture if those positions were no longer annually elected by the Board.

The Committee discussed initial and subsequent compensation for staff vice presidents not required to be annually elected by the Board. Ms. Mizell stated that the Board is currently not required to approve the compensation of staff vice presidents. However, in 2006 the President provided the staff vice president compensation to the Board along with the elected vice president compensation. The President stated that he intends to continue to do so. The Committee determined to further consider the alternatives discussed today at a subsequent meeting. The Committee asked Ms. Mizell to draft some preliminary Bylaw amendments for discussion.

VI. APPROVAL OF BYLAW AMENDMENT

The Chair asked Dr. Petersen to discuss the next item of business, approval of a Bylaw amendment (Exhibit 3). Dr. Petersen stated that the proposed Bylaw amendment would add the position of Senior Vice President and Chief Financial Officer as an officer of the University. He stated that the Executive and Compensation Committee approved the title change for the Chief Financial Officer to reflect his seniority and oversight authority. He stated that this Bylaw amendment simply adds the new title to the list of officers annually elected by the Board.

Mrs. Amonette moved approval of the proposed Bylaw amendment to add the position of Senior Vice President and Chief Financial Offer as an officer of the University. Mr. Driver seconded, and the motion carried unanimously.

VII. APPROVAL OF REVISED POLICY ON PRESIDENTIAL PERFORMANCE REVIEWS

The Chair asked Ms. Mizell to discuss the proposed revisions to the Policy on Presidential Performance Reviews included in the meeting materials (Exhibit 4). She stated that the policy was initially adopted in March 2004, and since that time the state comptroller's office has been conducting a performance audit of Board pursuant to state sunset legislation. She stated that the draft of the audit report commended the Board for adopting a written policy for presidential performance review, but recommended that the policy be revised to provide for multiple Trustees to be involved in the performance review process. Involving multiple Trustees would ensure a broader-based, more balanced view. Ms. Mizell reviewed the proposed changes, including the involvement of two standing committee chairs to assist the Vice Chair with the presidential performance review. She stated that the first instance where the two standing committee chairs would be involved in the process would be their involvement in

interviewing the President's Staff along with the Vice Chair. They would also review the surveys completed by student, faculty and staff representatives and other constituents. Lastly, the two standing committee chairs would observe the Vice Chair's meeting with the President to discuss his performance and goals for the coming year. Mr. Stansberry suggested that the two standing committee chairs participating in the review also have the opportunity to prepare their own report if they wish to do so based on their involvement in the process. Other members of the committee agreed. A discussion ensued as to how the two committee chairs would be selected. The Committee determined that the Executive and Compensation Committee should designate the two committee chairs.

Mr. Driver moved approval of the revised Policy on Presidential Performance Reviews, as amended to conform to the committee's consensus that the two standing committee chairs participating in the review process have the opportunity to prepare a separate report. Mrs. Amonette seconded, and the motion carried unanimously.

VIII. CONTINUED DISCUSSION OF THE UNIVERSITY'S COMPLIANCE PROGRAMS

Ms. Mizell stated that at the last meeting of the Committee, Mr. Paganelli discussed changes to the Audit Committee charter. The charter now requires that the Audit Committee exercise some oversight over the University's compliance programs. At that meeting, the Committee determined to discuss further at its next meeting the matter of compliance oversight undertaken by the Audit Committee. Dr. Rogers updated the Committee on steps being taken by internal audit and the Audit Committee to oversee the University's compliance programs. He stated that a compliance oversight structure was in place for finance activities but not for other non-financial areas such as safety, animal care in research, etc. He noted that committees are in place in those areas but those committees are not audited. He stated that ideally a mechanism will be put in place whereby internal audit will confirm that written policies and procedures are in place and those procedures are being followed. Reports would also be sent to internal audit by each area on a regular basis. A discussion ensued regarding IT security being put into place for the UT System to prevent unauthorized access to IT resources.

IX. SETTING NEXT COMMITTEE MEETING

Ms. Mizell stated that she would circulate proposed dates for the next meeting of the Committee. If possible, the Committee will meet prior to the June Board meeting.

X. OTHER BUSINESS

The Chair asked if there was any other business to come before the Committee. There was none.

XI. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned.

Catherine S. Mizell
Vice President, General Counsel and Secretary