

**JOINT LEGISLATIVE EDUCATION OVERSIGHT COMMITTEE**

**AGENDA**

**November 9, 2004**

**10:00 A.M., ROOM 1027/1128 Legislative Building**

Representative Grady, presiding

**Welcome and Introductions**

**NC School of the Arts Audit (Behind Tab 4)**

Mr. Dale Place, CPA, CFE, Office of the State Auditor

Response from The University of North Carolina

Wade Hobgood, Chancellor, North Carolina School of the Arts

Jeff Davies, Vice President for Finance and Chief Financial Officer, The University of North Carolina

**Committee Discussion: Recommendations from the Articulation Agreement Study**

Drupi Chauhan, Committee Counsel

**Community College Information System Quarterly Report (Behind Tab 5)**

Dr. Saundra Williams, Vice President for Administration, North Carolina Community College System

**Enrollment Projections**

Public Schools

Adam Levinson, Fiscal Analyst, Fiscal Research Division

Community Colleges

Kristine Leggett, Fiscal Analyst, Fiscal Research Division

Universities

Richard Bostic, Fiscal Analyst, Fiscal Research Division

**Leandro Status Report (Behind Tab 6)**

Status of Litigation

Robin Johnson, Committee Counsel

The State's Proposed Plan for Compliance

Dr. Janice Davis, Deputy Superintendent, Department of Public Instruction



## **JOINT LEGISLATIVE EDUCATION OVERSIGHT COMMITTEE**

### **AGENDA**

**November 10, 2004**

**9:00 A.M., ROOM 1027/1128 Legislative Building**

Representative Grady, presiding

### **Welcome**

### **North Carolina Alternatives to Traditional Teacher Preparation**

#### **IHE (Institutions of Higher Education) Performance Reports**

##### **Lateral Entry Program Review Report (Behind Tab 7)**

- Dr. Kathy Sullivan, Director, Human Resource Management/Quality Professionals, North Carolina Department of Public Instruction

#### **NC TEACH (North Carolina Teachers of Excellence for All Children) (Behind Tab 8)**

- Dr. Dorothy Mebane, Director, NCTEACH
- Mr. Jim Barber, Executive Director, LEARN NC (Learners' and Educators' Assistance and Resource Network)

#### **University of North Carolina, Center for School Leadership Development (Behind Tab 9)**

- Ms. Jean Murphy, Executive Director, NC Model Teacher Education Consortium

#### **North Carolina Community College Alternatives (Behind Tab 10)**

- Dr. Delores Parker, Vice President for Academic and Student Services, North Carolina Community College System

#### **North Carolina Independent Colleges and Universities Alternatives (Behind Tab 11)**

- Dr. Hope Williams, President, North Carolina Independent Colleges and Universities

#### **Examples of Alternative Teacher Preparation Programs (Behind Tab 12)**

- Dr. Cathy L. Barlow, Dean, Watson School of Education, University of North Carolina at Wilmington
- Dr. A. Michael Dougherty, Dean, College of Education and Allied Professions, Western Carolina University
- Mr. David Feagins, Coordinator, Alternative Licensure and Clinical Experiences, Greensboro College
- Dr. Marilyn Sheerer, Dean, College of Education, East Carolina University
- Dr. Cecelia Steppe-Jones, Dean, College of Education, North Carolina Central University



# **JOINT LEGISLATIVE EDUCATION OVERSIGHT COMMITTEE**

## **2003-2004 SESSION**

November 9-10, 2004

### **TABS**

- 1 Membership List
- 2 Authorizing Legislation; Issues to Study; Reports Due to Committee
- 3 Minutes
- 4 NC School of the Arts Audit
- 5 Community College Information System Quarterly Report
- 6 Leandro Status Report
- 7 IHE Performance Reports/Lateral Entry Program Review Report
- 8 NC TEACH
- 9 University of North Carolina
- 10 North Carolina Community College Alternatives
- 11 North Carolina Independent Colleges and Universities Alternatives
- 12 Examples of Alternative Teacher Preparation Programs



## JOINT LEGISLATIVE EDUCATION OVERSIGHT COMMITTEE

**Tuesday, November 9, 2004  
Legislative Building  
Room 1027/1128  
10:00 A.M.**

### **Special Review of the North Carolina Schools of the Arts**

#### **Presenters**

Mr. Dale Place, CPA, CFE, Office of the State Auditor

#### **Background:**

During the annual financial audit of the North Carolina School of the Arts, the financial auditors found some irregularities relating to overtime and special payment issues. The financial auditors asked the Investigative Audit Division to examine these issues. In October 2004, the Office of the State Auditor completed a Special Review of the North Carolina School of the Arts and the North Carolina School of the Arts Foundation, Inc. Mr. Dale Place will present the findings and recommendations of the Special Review. The University of North Carolina will respond to the Special Review.

#### **General Considerations:**

- The members of the Committee know a great deal about education issues affecting the State. Some have been on local boards of education or boards of trustees. Some were educators before becoming state legislators. However, many come from different walks of life. Please target your remarks accordingly.
- Keep your formal remarks brief; 10 minutes is a good target; 20 minutes at a maximum. Legislators like to ask questions and enjoy the give and take of Q & A sessions.
- If you plan to use Power Point, please limit the number of slides and be sure everyone on the committee and in the room can read the slides. Legislators generally prefer Power Point or overheads when used to present graphs, charts, or lists.
- You should avoid using acronyms. If you find this is necessary, you may want to provide a handout that defines the terms.
- There are 25 members, and as many as 40-50 observers. You will need to provide 75 copies of any handouts.
- Attached is a list of issues and questions you may wish to address during your presentation. The Committee realizes you may not be able to address all of them and that you may wish to emphasize issues not listed. Committee members may have additional questions.

Driving Instructions to the Legislative Complex: <http://www.ncleg.net/help/directions.html>

## Special Review of the North Carolina Schools of the Arts

### **Presenters:**

Mr. Dale Place, CPA, CFE, Office of the State Auditor

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### **Issues/Questions**

#### **Special Review of the North Carolina School of the Arts**

1. Present a brief overview of the findings and recommendations that are contained in the Special Review?
2. Why did the Office of the State Auditor perform the Special Review?
3. What methods were used to gather the information used in preparing the Special Review?
4. Based on all the individual findings and recommendations, what general recommendations can be made?

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## JOINT LEGISLATIVE EDUCATION OVERSIGHT COMMITTEE

**Tuesday, November 9, 2004**  
**Legislative Building**  
**Room 1027/1128**  
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### Special Review of the North Carolina Schools of the Arts

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#### **Presenters**

Response to Special Review from The University of North Carolina

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## Special Review of the North Carolina Schools of the Arts

### Presenters:

Response to the Special Review from The University of North Carolina

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### Issues/Questions

#### **Special Review of the North Carolina School of the Arts**

1. Please provide The University of North Carolina's response to the findings and recommendations in the Special Review?
2. Explain the statutory authority and Board of Governors policies that direct the President of The University of North Carolina to take immediate action when there are irregularities in any report issued by Auditor's Office on a special responsibility constituent institution. Explain what specific actions are being undertaken at the School of the Arts to address the concerns raised in the Special Review?
3. Explain the statutory authority and Board of Governors policies that give special responsibility constituent institutions management flexibility to set compensation for senior personnel and to create and abolish positions? What changes, if any, are the Board of Governors considering to these policies?
4. Explain any statutory authority and Board of Governors policies relating to financial audits and oversight of university-related private foundations? What changes, if any, are the Board of Governors considering to these policies?

### **§ 116-30.1. Special responsibility constituent institutions.**

The Board of Governors of The University of North Carolina, acting on recommendation made by the President of The University of North Carolina after consultation by him with the State Auditor, may designate one or more constituent institutions of The University as special responsibility constituent institutions. That designation shall be based on an express finding by the Board of Governors that each institution to be so designated has the management staff and internal financial controls that will enable it to administer competently and responsibly all additional management authority and discretion to be delegated to it. The Board of Governors, on recommendation of the President, shall adopt rules prescribing management staffing standards and internal financial controls and safeguards, including the lack of any significant findings in the annual financial audit by the State Auditor's Office, that must be met by a constituent institution before it may be designated a special responsibility constituent institution and must be maintained in order for it to retain that designation. These rules shall not be designed to prohibit participation by a constituent institution because of its size. These rules shall establish procedures for the President and his staff to review the annual financial audit reports, special reports, electronic data processing reports, performance reports, management letters, or any other report issued by the State Auditor's Office for each special responsibility constituent institution. The President shall take immediate action regarding reported weaknesses in the internal control structure, deficiencies in the accounting records, and noncompliance with rules and regulations. In any instance where significant findings are identified, the President shall notify the Chancellor of the particular special responsibility constituent institution that the institution must make satisfactory progress in resolving the findings, as determined by the President of The University, after consultation with the State Auditor, within a three-month period commencing with the date of receipt of the published financial audit report, any other audit report, or management letter. If satisfactory progress is not made within a three-month period, the President of The University shall recommend to the Board of Governors at its next meeting that the designation of the particular institution as a special responsibility constituent institution be terminated until such time as the exceptions are resolved to the satisfaction of the President of The University of North Carolina, after consultation with the State Auditor. However, once the designation as a special responsibility constituent institution has been withdrawn by the Board of Governors, reinstatement may not be effective until the beginning of the following fiscal year at the earliest. Any actions taken by the Board of Governors with respect to withdrawal or reinstatement of an institution's status as a special responsibility constituent institution shall be reported immediately to the Joint Legislative Education Oversight Committee.

The rules established under this section shall include review by the President, after consultation with the State Auditor, the Director of the Office of State Personnel, and the Director of the Division of State Purchasing and Contracts in ascertaining whether or not a constituent institution has the management staff and internal financial controls to administer the additional authorities authorized under G.S. 116-30.2, 116-30.4, and 143-53.1. Such review and consultation must take place no less frequently than once

each biennium. (1991, c. 689, s. 206.2(a); 1993 (Reg. Sess., 1994), c. 591, s. 10(a); 1996, 2nd Ex. Sess., c. 18, s. 7.4(k); 1997-71, s. 1.)

#### **§ 116-30.4. Position management.**

The Chancellor of a special responsibility constituent institution, when he finds that to do so would help to maintain and advance the programs and services of the institution, may establish and abolish positions, acting in accordance with:

- (1) State Personnel policies and procedures if these positions are subject to the State Personnel Act and if the institution is operating under the terms of a Performance Agreement or a Decentralization Agreement authorized under Chapter 126 of the General Statutes; or
- (2) Policies and procedures of the Board of Governors if these positions are exempt from the State Personnel Act.

The results achieved by establishing and abolishing positions pursuant to the conditions set forth in subdivision (1) of this section shall be subject to postauditing by the Office of State Personnel. Implementation of personnel actions shall be subject to the availability of funds within the institution's current budget to fund the full annualized costs of these actions. (1991, c. 689, s. 206.2(a); 1993 (Reg. Sess., 1994), c. 591, s. 10(a).)



**§ 116-40.22. Management flexibility.**

(a) **Definition.** – For purposes of this section, the term "institution" means a special responsibility constituent institution that is granted management flexibility by the Board of Governors in compliance with this Part.

(b) **Appoint and Fix Compensation of Senior Personnel.** – Notwithstanding any provision in Chapter 116 of the General Statutes to the contrary, the Board of Trustees of an institution shall, on recommendation of the Chancellor, appoint and fix the compensation of all vice-chancellors, senior academic and administrative officers, and any person having permanent tenure at that institution. No later than January 1, 2002, the Board of Governors shall adopt policies, compensation structures, and pay ranges concerning the appointment and compensation of senior personnel appointed by the Board of Trustees pursuant to this section. Compensation for senior personnel fixed by the Board of Trustees pursuant to this section shall be consistent with the compensation structure, policies, and pay ranges set by the Board of Governors.

(c) **Tuition and Fees.** – Notwithstanding any provision in Chapter 116 of the General Statutes to the contrary, in addition to any tuition and fees set by the Board of Governors pursuant to G.S. 116-11(7), the Board of Trustees of the institution may recommend to the Board of Governors tuition and fees for program-specific and institution-specific needs at that institution without regard to whether an emergency situation exists and not inconsistent with the actions of the General Assembly. The institution shall retain any tuition and fees set pursuant to this subsection for use by the institution.

(d) **Information Technology.** – Notwithstanding any other provision of law, the Board of Trustees of an institution shall establish policies and rules governing the planning, acquisition, implementation, and delivery of information technology and telecommunications at the institution. These policies and rules shall provide for security and encryption standards; software standards; hardware standards; acquisition of information technology consulting and contract services; disaster recovery standards; and standards for desktop and server computing, telecommunications, networking, video services, personal digital assistants, and other wireless technologies; and other information technology matters that are necessary and appropriate to fulfill the teaching, educational, research, extension, and service missions of the institution. The Board of Trustees shall submit all initial policies and rules adopted pursuant to this subsection to the Office of Information Technology Services for review upon adoption by the Board of Trustees. Any subsequent changes to these policies and rules adopted by the Board of Trustees shall be submitted to the Office of Information Technology Services for review. Any comments by the Office of Information Technology Services shall be submitted to the Chancellor of that institution. (2001-424, s. 31.11(a).)



Article 3H.

Overpayments of State Funds.

**§ 143-64.80. Overpayments of State funds to persons in State-supported positions; recoupment required.**

(a) An overpayment of State funds to any person in a State-funded position, whether in the form of salary or otherwise, shall be recouped by the entity that made the overpayment and, to the extent allowed by law, the amount of the overpayment may be offset against the net wages of the person receiving the overpayment.

(b) No State department, agency, or institution, or other State-funded entity may forgive repayment of an overpayment of State funds, but shall have a duty to pursue the repayment of State funds by all lawful means available, including the filing of a civil action in the General Court of Justice. (2003-263, s. 1.)





## Special Review

### North Carolina School of the Arts

North Carolina State Auditor Ralph Campbell

September 2004



## Introduction

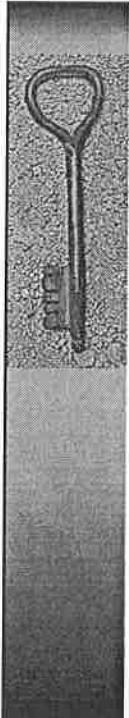
In the fall of 2003, the School of the Arts enrolled 1,074 students and employed about 400 full-time employees, including faculty.

For the fiscal year ended June 30, 2003, the state appropriation to the School of the Arts was \$15,917,599.



N.C. Office of the State Auditor

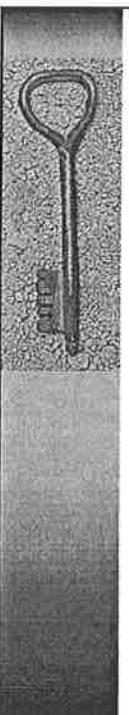




During the annual financial audit for the fiscal year ended June 30, 2003, auditors discovered excessive overtime payments and other special payments to employees and requested assistance from the State Auditor's Investigative Audit Division.



N.C. Office of the State Auditor



# Investigative Audit Findings



N.C. Office of the State Auditor





## Finding 1

NCSA reclassified an employee's position twice without approval from the University of North Carolina Office of the President and the Office of State Personnel.

### Recommendation

NCSA should comply with all UNC and State personnel Policies and Procedures concerning personnel actions.



N.C. Office of the State Auditor



## Finding 2

From May 2001 through September 2003, NCSA paid a personnel analyst \$69,112.34 for overtime without proper documentation. Auditors determined that \$22,753.21 was paid as a result of incorrect calculations.

### Recommendation

NCSA should ensure that proper documentation is maintained to support the payment of overtime, including evidence that overtime hours are recorded accurately and authorized by supervisory personnel. NCSA should consult with the NC Attorney General concerning the reimbursement of the overpayment.



N.C. Office of the State Auditor





## Finding 3

From December 2001 through January 2004, NCSA overpaid a personnel assistant \$5,265.32 due to incorrect overtime calculations.

### Recommendation

NCSA should ensure that proper documentation is maintained to support the payment of overtime, including evidence that overtime hours are calculated accurately and authorized by supervisory personnel. NCSA should consult with the NC Attorney General concerning the reimbursement of the overpayment.



N.C. Office of the State Auditor



## Finding 4

NCSA made special one-time payments to 20 SPA and EPA employees totaling \$53,325.00. These payments violated State Personnel policies and Fair Labor Standards Act regulations.

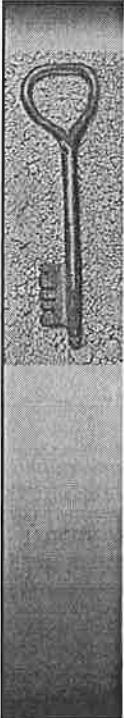
### Recommendation

NCSA should not make special payments to ineligible employees. NCSA should comply with all state and federal regulations concerning overtime, dual employment and special appointments.



N.C. Office of the State Auditor





## Finding 5

A personnel analyst approved personnel actions, including overtime and one-time special payments for her sister.

### Recommendation

NCSA employees should not be involved in the authorization or approval of payroll changes or any personnel action for immediate family members.



N.C. Office of the State Auditor



## Finding 6

Employees appear to be abusing an employee loan program by using it as a revolving line of credit, exceeding allowed loan amounts and failing to repay loans within required time limits.

### Recommendation

NCSA management should enforce the loan fund guidelines regarding legitimate use of loan funds, timely repayment of loans and allowable loan amounts.



N.C. Office of the State Auditor



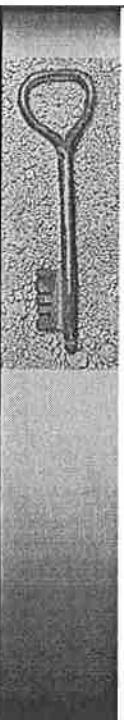


## Organizations Affiliated with the School of the Arts

- North Carolina School of the Arts Foundation, Inc.
- North Carolina School of the Arts Program Support Corporation
- NCSA Unity Development Corporation
- NCSA Housing Corporation



N.C. Office of the State Auditor



## Finding 7

State and Foundation funds were used to improperly fund three discretionary accounts without authorization from the Foundation Board of Directors. Expenditures from the funds included car lease payments, country club dues, employee gifts, and travel.

### Recommendation

Someone independent of the Vice Chancellor for Finance and Administration should be appointed to manage the operations of the Foundation. In addition, the Foundation should consult with legal counsel regarding any possible reimbursement.



N.C. Office of the State Auditor





## Finding 8

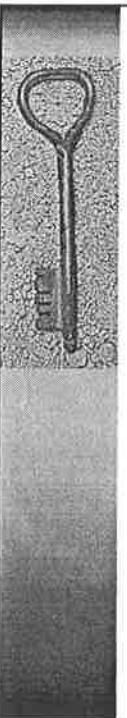
The Vice Chancellor for Finance and Administration received in excess of \$90,000 over 13 years from the NCSA Foundation, Inc. in violation of University of North Carolina policies. In addition, the Foundation Controller misled auditors concerning payments to the Vice Chancellor for Finance and Administration.

### Recommendation

The Foundation should stop paying expense allowances, and instead reimburse NCSA employees directly for expenses incurred while conducting Foundation activities.



N.C. Office of the State Auditor



## Finding 9

The Vice Chancellor for Finance and Administration negotiated a deal with the Department of Transportation, then transferred land without authorization from the Foundation's Board of Directors, resulting in the diversion of \$108,000 to the NCSA Program Support Corporation.

### Recommendation

The North Carolina School of the Arts Foundation should seek reimbursement for the \$108,000 diverted to the NCSA Program Support Corporation.



N.C. Office of the State Auditor





## Finding 10

The Vice Chancellor for Finance and Administration diverted \$177,945 to the NCSA Program Support Corporation through the transfer of ownership and subsequent disposition of five Foundation properties.

### Recommendation

The North Carolina School of the Arts Foundation should seek reimbursement for the \$177,945 diverted to the NCSA Program Support Corporation.



N.C. Office of the State Auditor



## Finding 11

The Vice Chancellor for Finance and Administration and the Dean of the School of Filmmaking received over \$67,000 during a 10-month period for services provided to an organization affiliated with NCSA in violation of a University of North Carolina policy.

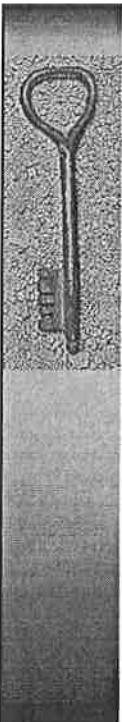
### Recommendation

The North Carolina School of the Arts should implement management controls to ensure compliance with University of North Carolina policies concerning compensation of senior administrative and academic officials.



N.C. Office of the State Auditor





## Conclusion

- The eleven findings in this report reveal:
  - Violations of State and University of North Carolina personnel regulations and poor administrative controls.
  - Transactions involving the transfer of funds and property into undisclosed discretionary accounts and related organizations without authorization.



N.C. Office of the State Auditor



## Conclusion

- The UNC Office of the President should review whether the School of the Arts should be allowed to continue exercising budget flexibility.
- UNC should require each of the 16 universities to identify all foundations and related organizations and provide the UNC Board of Governors with a report of their activities, including revenues and expenditures.



N.C. Office of the State Auditor





# Questions?



N.C. Office of the State Auditor





# STATE OF NORTH CAROLINA

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## SPECIAL REVIEW

**NORTH CAROLINA SCHOOL OF THE ARTS**

**NORTH CAROLINA SCHOOL OF THE ARTS  
FOUNDATION, INC.**

**WINSTON-SALEM, NORTH CAROLINA**

**SEPTEMBER 2004**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**



**SPECIAL REVIEW**

**NORTH CAROLINA SCHOOL OF THE ARTS**

**NORTH CAROLINA SCHOOL OF THE ARTS FOUNDATION, INC.**

**WINSTON-SALEM, NORTH CAROLINA**

**SEPTEMBER 2004**





Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet <http://www.ncauditor.net>

**LETTER OF TRANSMITTAL**

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October 5, 2004

The Honorable Michael F. Easley, Governor  
Members of the North Carolina General Assembly  
President Molly Corbett Broad, University of North Carolina  
Mr. Stephen P. Karr, Chairman, North Carolina School of the Arts Board of Trustees  
Mr. Jeff Whittington, President, North Carolina School of the Arts Foundation Inc.,  
Board of Directors

Ladies and Gentlemen:

Pursuant to General Statute §147-64.6(c)(16), we have completed our special review into allegations concerning the North Carolina School of the Arts. The results of our review, along with recommendations for corrective actions, are contained in this report.

General Statute §147-64.6(c)(12) requires the State Auditor to provide the Governor, the Attorney General, and other appropriate officials with written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee. In accordance with that mandate, and our standard operating practice, we are providing copies of this report to the Governor, the Attorney General and other appropriate officials.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ralph Campbell, Jr."

Ralph Campbell, Jr., CFE  
State Auditor



## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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In February 2002, the NCDOT Right-of-Way Agent presented a \$99,500 offer to the Vice Chancellor for Finance and Administration for the acquisition of the .65-acre segment of Foundation property. The Right-of-Way Agent's Negotiating Diary includes notes indicating the Vice Chancellor for Finance and Administration intended to make a counteroffer and the Foundation was not willing to donate the land to NCDOT.

### **Foundation's Executive Committee Approves Property Transfer to NCSA**

At a March 7, 2002, meeting of the Executive Committee of the Foundation, the Vice Chancellor for Finance and Administration, who was also Assistant Secretary and Assistant Treasurer for the Foundation, briefed members on the piece of land adjacent to the NCSA campus that was acquired by the Foundation in 1985. The official minutes from this meeting are as follows:

*NCSA would like the Foundation to gift this property to the school in order to avoid potential liability to the Foundation when a parking lot is built on the land.*

*After discussion by the committee, a motion was made and passed to immediately transfer this property from the Foundation to the NCSA Endowment Fund by quit claim deed.*

The minutes of the Foundation's Executive Committee meeting on March 7, 2002 do not reflect any discussion of the impending NCDOT acquisition or the appraised value of the Foundation's property.

### **Settlement with NCDOT and Transfer of Property to NCSA Program Support Corp.**

On March 21, 2002, the Vice Chancellor for Finance and Administration agreed to a settlement amount of \$108,000 for the acquisition of the .65-acre section of the Foundation's property according to the Right-of-Way Agent's notes.

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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On March 28, 2002, the Vice Chancellor for Finance and Administration acting as Secretary for the Foundation, executed a North Carolina Special Warranty deed, prepared by an attorney, to transfer title (without consideration) to the 3.41-acre property from the Foundation to the North Carolina School of the Arts Program Support Corporation (see organization overview). According to the Foundation President, the Vice Chancellor for Finance and Administration, who also served as Assistant Secretary and Assistant Treasurer for the Foundation, never disclosed this transfer of title to the Foundation's Board of Directors. The Foundation's Board of Directors authorized the transfer of title to the 3.41-acre property to NCSA, not to the NCSA Program Support Corporation.

### Check Issued to NCSA Program Support Corporation

On May 15, 2002, NCDOT issued a check payable to the North Carolina School of the Arts Program Support Corporation for \$108,000. On May 22, 2002, the \$108,000 check was deposited in a local bank account in the name of the North Carolina School of the Arts Program Support Corporation. The subsequent expenditure of these funds included debt service payments, a \$25,000 down payment on a new residence for the NCSA Chancellor, and various other expenditures (see organization overview).

According to the Vice Chancellor for Finance and Administration, he transferred the property to the Program Support Corporation in order to avoid liabilities associated with potential soil contamination.

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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### **RECOMMENDATION**

The North Carolina School of the Arts Foundation should seek reimbursement for the \$108,000 deposited in the North Carolina School of the Arts Program Support Corporation's checking account.

**10. THE VICE CHANCELLOR FOR FINANCE AND ADMINISTRATION MISAPPLIED \$177,945 FROM THE NORTH CAROLINA SCHOOL OF THE ARTS FOUNDATION, INC., THROUGH THE TRANSFER OF OWNERSHIP AND SUBSEQUENT DISPOSITION OF REAL PROPERTY.**

Background

In the early 1990s, officials with the North Carolina School of the Arts (NCSA) met with one of NCSA's principal benefactors to discuss a plan to provide housing for guest artists near the NCSA campus. The benefactor purchased five houses on Chapel Street, adjacent to the NCSA campus, and donated them to the North Carolina School of the Arts Foundation, Inc., (the Foundation) over a seven-year period from 1992 to 1999.

By 2003, NCSA had developed a university master plan for the expansion and improvement of its Winston-Salem campus. The houses on Chapel Street became part of this plan because of their location and the fact that NCSA could maintain the properties with building reserve funds.

In response to a request from NCSA, the University of North Carolina Office of the President approved the acquisition of the five Chapel Street houses on October 14, 2003. The approval was subject to the condition that the acquisition cost could not exceed the Foundation's purchase price and final approval from the Council of State.

## FINDINGS AND RECOMMENDATIONS (CONTINUED)

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### Council of State's Approval of the Acquisition of the Chapel Street Houses

On October 29, 2003, an NCSA Project Manager, under the supervision of the Vice Chancellor for Finance and Administration, issued a request to the State Property Office for the reimbursement of \$177,945 in maintenance and repair costs associated with the Chapel Street houses in exchange for the Foundation's transfer of the properties to NCSA.

The State Property Office employee responsible for processing the NCSA request provided the following statement to us about the Chapel Street houses:

*The North Carolina School of the Arts, requested that this office acquire the above referenced properties [the Chapel Street houses] from the North Carolina School of the Arts Foundation for inclusion in their university master plan. The subject properties were submitted to the Joint Legislative Commission on Governmental Operations for their favorable recommendation to the Governor and Council of State. On February 3, 2004 the Governor and Council of State approved the acquisition of the properties from the NC School of the Arts Foundation, Inc.*

The Council of State approved the acquisition of the Chapel Street houses for \$177,945 in accordance with the NCSA request. Documents from the Council of State meeting included the following comments:

*The above consideration represents the cost incurred by the Foundation for improvements and maintenance of the property. Property proposed for acquisition will be utilized in accordance with the university master plan, which will allow for construction of parking facilities.*

### Check Request from State Property Office

On March 16, 2004, the State Property Office issued a memorandum to the NCSA Project Manager requesting that checks be prepared and forwarded to a designated attorney for

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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the acquisition of the Chapel Street houses from the Foundation. On March 26, 2004, NCSA issued five checks to the closing attorney totaling \$177,945 for the acquisition of the Chapel Street houses.

### Statement from the President of the Foundation

The President of the Foundation Board provided the following statement about the Foundation Board's knowledge of transactions related to the Chapel Street houses:

*I first heard about the Chapel Street houses on April 15<sup>th</sup> [2004] when the Foundation Accountant made an off-hand comment about them being transferred from the Foundation to the School [NCSA]. I called [the Vice Chancellor for Finance] to find out about the assets and the transaction. I met [the Vice Chancellor for Finance] on Monday, April 19<sup>th</sup> to inspect the houses and discuss the transaction. I asked [the Vice Chancellor for Finance] to make a presentation to the Foundation Board's Executive Committee at its next meeting (May 5, 2004). He informed me that the transfer was scheduled to close that Friday (April 23, 2004). I told him to cancel the closing and make the presentation on May 5<sup>th</sup>.*

### Foundation Board Executive Committee Meeting

In the May 5, 2004, Foundation Board's Executive Committee meeting, the Vice Chancellor for Finance and Administration, who also served as Assistant Secretary and Assistant Treasurer for the Foundation, made a presentation about the Chapel Street houses as requested. According to the official minutes from this meeting, the Vice Chancellor for Finance and Administration argued that the Chapel Street houses were becoming a financial burden to the Foundation and should be donated to NCSA because NCSA now had the funding to maintain them.

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## FINDINGS AND RECOMMENDATIONS (CONTINUED)

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Further, he argued that Foundation funds budgeted for the maintenance of the Chapel Street houses could be used to rent apartments for guest artists at NCSA's Center Stage apartment complex.

The Foundation President recalled the following points from this meeting:

*I asked him [the Vice Chancellor for Finance] why the Foundation should not just sell the properties and his response was that the land was part of the School's strategic plan to someday build a new library. Finally, [the Vice Chancellor for Finance] said the State would not pay the Foundation anything for the houses because they had been donated at zero cost.*

Based on the information presented in this meeting, the Executive Committee approved a motion to transfer the Chapel Street houses to NCSA.

### Chapel Street houses transferred to the NCSA Program Support Corporation

On May 24, 2004, the Vice Chancellor for Finance and Administration utilized five general warranty deeds to transfer ownership of the Chapel Street houses from the Foundation to the North Carolina School of the Arts Program Support Corporation (Program Support Corp.) without authorization from the Foundation's board of directors.

### Checks Issued to Program Support Corp to Acquire the Chapel Street Houses.

On May 28, 2004, the attorney issued five checks totaling \$177,585 to the Program Support Corporation for the acquisition of the Chapel Street houses. The checks were deposited in a Program Support Corp. checking account on June 1, 2004.

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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The Program Support Corp. is a tax exempt organization established in July 1997 to support NCSA. Its board members are the NCSA Chancellor, the NCSA Vice Chancellor for Arts and Academics, and the Vice Chancellor for Finance and Administration.

According to the Vice Chancellor for Finance and Administration, he transferred the properties to the Program Support Corporation in order to avoid liabilities associated with potential soil contamination.

### **Summary**

The Council of State approved the acquisition of the Chapel Street houses from the Foundation for \$177,945 on February 3, 2004. When the Vice Chancellor for Finance and Administration, who also served as Assistant Secretary and Assistant Treasurer for the Foundation, made his presentation about the Chapel Street houses to the Executive Committee of the Foundation Board on May 5, 2004, he failed to disclose this information. According to the Foundation President, the Vice Chancellor for Finance and Administration told the Executive Committee the State could not pay for the Chapel Street houses because the houses were donated to the Foundation. The Executive Committee subsequently approved the donation, not the sale, of the Chapel Street houses to NCSA. Moreover, there was no approval from the Foundation's Executive Committee to transfer ownership of the Chapel Street houses to the Program Support Corporation.

### **RECOMMENDATION**

The Foundation should seek reimbursement of \$177,945 from the NCSA Program Support Corporation.

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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### **11. THE VICE CHANCELLOR FOR FINANCE AND ADMINISTRATION AND THE DEAN OF THE SCHOOL OF FILMMAKING RECEIVED COMPENSATION FROM NCSA UNITY DEVELOPMENT CORPORATION IN VIOLATION OF UNIVERSITY OF NORTH CAROLINA REGULATIONS.**

#### Background

NCSA Unity Development Corporation (Unity Development) filed its Articles of Incorporation with the North Carolina Secretary of State on January 13, 2003. These Articles of Incorporation state the purpose of Unity Development is “to operate for the benefit of, to perform the functions of, or to carry out the purposes of the North Carolina School of the Arts (NCSA).” The initial board of directors for Unity Development was comprised of the NCSA Chancellor, the NCSA Vice Chancellor for Finance and Administration and the NCSA Provost and Vice Chancellor for Arts and Academic Programs. Subsequently, five people not employed by NCSA were appointed to the board of directors and the Vice Chancellor for Finance and Administration tendered his resignation as a voting member to the board because he was being compensated for his services.

The Unity Development checkbook was maintained by the Executive Assistant to the Vice Chancellor for Finance and Administration in her office. She was responsible for processing invoices and preparing checks.

At a September 25, 2003, meeting of the Unity Development Board of Directors, motions were made and passed to compensate the Dean of the School of Filmmaking \$30,000 per year and the Vice Chancellor for Finance and Administration \$27,096 per year for services provided to Unity Development.

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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### Payments to Green Street Productions, Inc.

Unity Development issued a check for \$20,000 on November 25, 2003, for consulting services to Green Street Productions, Inc., a corporation created in November 2003 by the Dean of the School of Filmmaking. On July 28, 2004, Unity Development issued a second check to Green Street Productions, Inc. for \$9,400. The Dean of the School of Filmmaking is listed as the president of Green Street Productions, Inc. in an annual report filed with the North Carolina Secretary of State.

### Payments to West End Associates, Inc.

Between October 2003 and July 2004, Unity Development issued checks totaling \$38,323.45 for consulting services to West End Associates, Inc., a corporation established by the Vice Chancellor for Finance and Administration in 1995.

According to the Chancellor, the Vice President and General Counsel for the University of North Carolina approved the process of Unity Development paying the Vice Chancellor for Finance and Administration and the Dean of the School of Filmmaking, as long as they performed the services on their own time.

According to the Vice President and General Counsel for the University of North Carolina, she advised the Chancellor in an email on September 8, 2003, that it did not appear improper to her for the Dean of the School of Filmmaking to receive compensation from Unity Development “as long as it is clear that the Dean must do all of the work on

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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his own time and not utilizing University resources.” In subsequent emails in December 2003, the Vice President and General Counsel for the University of North Carolina and the NCSA Attorney agreed that Section 300.1.1. of the *University of North Carolina Policy Manual* did not apply to the Dean of the School of Filmmaking.

*Since (1) Unity Development's purpose is different than that of a typical university foundation whose sole purpose is to support the university/school; (2) NCSA does not control Unity Development either by appointing directors or through overlapping boards; and (3) the consulting activities are different from the duties normally performed by the Dean for NCSA.*

According to the Vice President and General Counsel for the University of North Carolina, she was never asked if she thought Section 300.1.1. of the *University of North Carolina Policy Manual* applied to the Vice Chancellor for Finance and Administration receiving compensation from Unity Development.

According to the Vice Chancellor for Finance and Administration, the Vice President and General Counsel for the University of North Carolina approved for both the Dean of the School Filmmaking and himself to receive compensation from Unity Development for their services.

According to the Dean of the School of Filmmaking, he was assured by the Chancellor that the compensation he received from Unity Development would not violate UNC policies.

## **FINDINGS AND RECOMMENDATIONS (CONTINUED)**

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### Violation of University of North Carolina Policy

As a constituent institution of the University of North Carolina, employees of NCSA are subject to its policies and regulations. Section 300.1.1 of the *University of North Carolina Policy Manual* includes specific regulations for senior academic and administrative officers of the University of North Carolina. The following regulation specifically addresses the compensation of senior officers.

*The compensation of senior officers shall be set by the Board of Governors or a Board of Trustees delegated such authority by the Board of Governors.*

*No chancellor and no senior academic and administrative officer may be paid, in addition to his or her salary as established pursuant to the foregoing requirements, for any services rendered to any institution-related foundation, endowment, or other University-related enterprise.*

The Dean of the School of Filmmaking and the Vice Chancellor for Finance and Administration are senior academic and administrative officers, respectively, of NCSA as defined in Section 300.1.1 of the *University of North Carolina Policy Manual*. Unity Development is an institution-related enterprise by reference to its *Articles of Incorporation*, and the control of its financial activities by the Vice Chancellor for Finance and Administration. Therefore, in our opinion, the compensation paid by NCSA Unity Development Corporation to the Dean of the School of Filmmaking and the Vice Chancellor for Finance and Administration, through their corporations, represents a violation of the above regulation of the University of North Carolina.

## **FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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### **RECOMMENDATION**

The North Carolina School of the Arts should develop and implement management controls to ensure compliance with regulations adopted by the Board of Governors of the University of North Carolina. In addition, the Office of the President of the University of North Carolina should firmly emphasize the importance of its regulations and the consequences of noncompliance.

## CONCLUSION

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The eleven findings on the North Carolina School of the Arts reveal:

- a series of personnel actions that violate regulations and policies and demonstrate poor administrative controls, and
- transactions involving the transfer of assets into discretionary accounts and other university related organizations that were not fully disclosed.

The personnel actions demonstrate a pattern of violations. The repetitive nature of the violations calls into question the School's continued designation as a special responsibility constituent institution as provided by North Carolina General Statute 116-30.1. Schools designated by the University of North Carolina Board of Governors as special responsibility constituent institutions receive management, budgetary and personnel flexibility beyond that normally enjoyed by state agencies. This designation is dependent upon the institution establishing and maintaining the "management staff and internal financial controls . . . to administer competently and responsibly all additional management authority and discretion . . ." Maintaining this designation is dependent upon the absence of significant audit findings. Audit findings numbers one through five reveal a lack of control over State funds calling into question the School's fitness to maintain the designation of a special responsibility constituent institution.

The School also failed to exercise appropriate control or oversight over its related organizations. Loans to employees, compensation paid to senior school officials and the transfer of property between organizations demonstrate a lack of control and oversight. Particularly troubling are the transactions where real estate owned by the North Carolina

## CONCLUSION (CONTINUED)

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School of the Arts Foundation was transferred to another organization without full disclosure and compensation. The effect was to remove valuable assets from the North Carolina School of the Arts Foundation that were governed both by outside directors and school officials to an organization only governed by three-school officials.

Under recently established Governmental Accounting Standards Board guidelines, universities and institutions such as the North Carolina School of the Arts are required to disclose in their financial statements the financial activities of organizations they control or affiliated organizations whose assets and/or revenues are significant in comparison to the school. This office has been working with the University of North Carolina System to implement the new requirements. The activities of the organizations associated with the North Carolina School of the Arts clearly demonstrate the need for continuing vigilance in this area.

Given the totality of the circumstances surrounding the findings in this report we recommend:

- the North Carolina School of the Arts thoroughly and systematically strengthen its oversight of both personnel actions and foundation and related organization activities,
- the President carefully and fully review the School's designation as a special responsibility constituent institution and the attendant management flexibility, and
- the President of the University and the Board of Governors review its policies regarding foundations and related organizations associated with constituent institutions in the University of North Carolina system. More specifically we recommend the University of North Carolina and the Board of Governors require each institution to identify all foundations and related organizations and provide the University of North Carolina with a report of their activities including revenue and expenditures.

## **CONCLUSION (CONCLUDED)**

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Finally, we are referring this special review report in its entirety to the North Carolina Attorney General and the District Attorney for the 21<sup>st</sup> Prosecutorial District as provided by G.S. §147-64.6(c)(12) for their review to determine whether further action is warranted.

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## STATEMENT OF QUESTIONED COSTS

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The following schedule represents a quantification of the items examined during our special review. We cannot completely quantify the tangible benefits or detriment, if any, to the taxpayers resulting from the findings of our review. We simply are noting areas where managerial oversight should be enhanced, or where, in our judgment, questionable activities or practices occurred.

1. Overtime paid to Personnel Analyst that lacks adequate supporting documentation.	\$ 69,112.34
2. Incorrect compensation of overtime for a personnel assistant.	5,265.32
3. Inappropriate one-time special payments	53,325.82
4. The Personnel Analyst approved personnel actions, including overtime and one-time payments to her sister.	3,685.60
5. Employees appear to be abusing the employee loan program.	9,000.00
6. State and Foundation funds were used to improperly fund discretionary accounts not reported to the Foundation Board of Directors.	397,426.00
7. The Vice Chancellor for Finance and Administration received compensation over 13 years from the NCSA Foundation, Inc.	90,000.00
8. The Vice Chancellor for Finance and Administration diverted proceeds from the sale of real property without authorization.	285,945.00
9. The Vice Chancellor for Finance and Administration and the Dean of the School of Filmmaking received compensation in violation of University of North Carolina regulations.	67,723.45
Total	<u>\$981,483.53</u>

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**Personnel Analyst**

Payroll Period	Regular Salary	One-Time Special Payments	Legislative Bonus	Overtime Payments	Longevity Payments	Gross Pay per Payroll Period
1/31/2001	4,052.67					4,052.67
2/28/2001	4,052.67					4,052.67
3/30/2001	4,052.67					4,052.67
4/30/2001	4,052.67					4,052.67
5/31/2001	4,052.67			3,156.29		7,208.96
6/29/2001	4,052.67			2,021.23		6,073.90
7/31/2001	4,052.67					4,052.67
8/31/2001	4,052.67				1,581.00	5,633.67
9/28/2001	4,052.67					4,052.67
10/30/2001	4,260.99	(A)		3,273.12		7,534.11
11/30/2001	4,104.75				20.00	4,124.75
12/20/2001	4,104.75			4,049.20		8,153.95
<b>2001 Totals</b>	<b>\$48,944.52</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$12,499.84</b>	<b>\$1,601.00</b>	<b>\$63,045.36</b>
1/31/2002	4,104.75			2,841.60		6,946.35
2/28/2002	4,104.75			2,738.48		6,843.23
3/28/2002	4,104.75	5,000.00				9,104.75
4/30/2002	4,104.75			1,833.72		5,938.47
5/31/2002	4,104.75			3,484.07		7,588.82
6/28/2002	4,104.75			825.17		4,929.92
7/31/2002	4,104.75			3,502.41		7,607.16
8/30/2002	4,104.75			2,768.92	1,601.00	8,474.67
9/30/2002	4,104.75			5,684.53		9,789.28
10/31/2002	4,104.75			4,034.18		8,138.93
11/27/2002	4,104.75			2,750.58		6,855.33
12/20/2002	4,104.75			4,767.67		8,872.42
<b>2002 Totals</b>	<b>\$49,257.00</b>	<b>\$5,000.00</b>	<b>\$0.00</b>	<b>\$35,231.33</b>	<b>\$1,601.00</b>	<b>\$91,089.33</b>
1/31/2003	4,104.75	3,500.00		5,134.42		12,739.17
2/28/2003	4,104.75			4,951.04		9,055.79
3/31/2003	4,104.75			825.17		4,929.92
4/30/2003	4,104.75			1,375.29		5,480.04
5/30/2003	4,104.75			3,025.64		7,130.39
6/30/2003	4,104.75			2,200.46		6,305.21
7/31/2003	4,104.75			916.86		5,021.61
8/31/2003	4,104.75			366.74	1,601.00	6,072.49
9/30/2003	4,583.33	(B)		2,585.55	149.00	7,317.88
10/31/2003	4,583.33		550.00			5,133.33
11/30/2003	4,583.33					4,583.33
12/31/2003	4,583.33					4,583.33
<b>2003 Totals</b>	<b>\$51,171.32</b>	<b>\$3,500.00</b>	<b>\$550.00</b>	<b>\$21,381.17</b>	<b>\$1,750.00</b>	<b>\$78,352.49</b>
1/31/2004	4,583.33					4,583.33
2/28/2004	4,583.33					4,583.33
3/31/2004	4,104.75	(C)				4,104.75
<b>2004 (to date)</b>	<b>\$13,271.41</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$13,271.41</b>
<b>Grand Total</b>	<b>\$162,644.25</b>	<b>\$8,500.00</b>	<b>\$550.00</b>	<b>\$69,112.34</b>	<b>\$4,952.00</b>	<b>\$245,758.59</b>
(A)	\$625 Legislative Increase - retroactive to 7/1/2001 (\$52.08 per month).					
(B)	Employee moved from a SPA position to an EPA position effective 9/1/2003. Annual salary increased from \$49,257 to \$55,000.					
(C)	Employee moved from an EPA position back to a SPA position effective 3/1/2004. Annual salary decreased from \$55,000 to \$49,257.					

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**Personnel Assistant**

Payroll Period	Regular Salary	Overtime Payments	Payment for Bonus Leave	Legislative Bonus	Gross
1/31/2001	2,432.00				2,432.00
2/28/2001	2,432.00				2,432.00
3/30/2001	2,432.00				2,432.00
4/30/2001	2,432.00				2,432.00
5/31/2001	2,432.00				2,432.00
6/29/2001	2,432.00				2,432.00
7/31/2001	2,432.00				2,432.00
8/31/2001	2,432.00				2,432.00
9/28/2001	2,432.00				2,432.00
10/30/2001	2,640.32 <b>(A)</b>				2,640.32
11/30/2001	2,484.08				2,484.08
12/20/2001	2,484.08	773.82			3,257.90
<b>2001 Totals</b>	<b>\$29,496.48</b>	<b>\$773.82</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$30,270.30</b>
1/31/2002	2,484.08				2,484.08
2/28/2002	2,484.08				2,484.08
3/28/2002	2,484.08	931.59			3,415.67
4/30/2002	2,484.08	372.51			2,856.59
5/31/2002	2,484.08				2,484.08
6/28/2002	2,484.08				2,484.08
7/31/2002	2,484.08				2,484.08
8/30/2002	2,484.08				2,484.08
9/30/2002	2,484.08	4,521.90			7,005.98
10/31/2002	2,484.08	1,719.60			4,203.68
11/27/2002	2,484.08	1,719.60			4,203.68
12/20/2002	2,484.08	1,999.04			4,483.12
<b>2002 Totals</b>	<b>\$29,808.96</b>	<b>\$11,264.24</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$41,073.20</b>
1/31/2003	2,484.08	537.38			3,021.46
2/28/2003	2,484.08	709.34			3,193.42
3/31/2003	2,484.08	483.64			2,967.72
4/30/2003	2,484.08				2,484.08
5/30/2003	2,484.08				2,484.08
6/30/2003	2,484.08				2,484.08
7/31/2003	2,484.08				2,484.08
8/31/2003	2,484.08				2,484.08
9/30/2003	2,484.08				2,484.08
10/31/2003	2,980.92 <b>(B)</b>			550.00	3,530.92
11/30/2003	2,732.50				2,732.50
12/31/2003	2,732.50				2,732.50
<b>2003 Totals</b>	<b>\$30,802.64</b>	<b>\$1,730.36</b>	<b>\$0.00</b>	<b>\$550.00</b>	<b>\$33,083.00</b>
1/31/2004	<b>(C)</b>	1,973.62	2,521.60		4,495.22
<b>2004 (to date)</b>	<b>\$0.00</b>	<b>\$1,973.62</b>	<b>\$2,521.60</b>	<b>\$0.00</b>	<b>\$4,495.22</b>
<b>Grand Totals</b>	<b>\$90,108.08</b>	<b>\$15,742.04</b>	<b>\$2,521.60</b>	<b>\$550.00</b>	<b>\$108,921.72</b>
<b>(A)</b>	\$625 Legislative Increase - retroactive to 7/1/2001 (\$52.08 per month).				
<b>(B)</b>	In-Range Adjustment - retroactive to 9/1/03 (\$248.42 per month)				
<b>(C)</b>	Employee resigned 12/31/03, settlement payments for overtime/compensatory hours and bonus leave				

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# Special One-Time Special Payments to NC Employees

## 2002-2003 ONE-TIME SPECIAL PAYMENTS TO EPA EMPLOYEES (See Note C Below):

EMPLOYEE POSITION	DIVISION OR DEPARTMENT	ONE-TIME SPECIAL PAYMENT AMOUNT	PAYMENT DATE
Special Assistant to Associate Director of Kenan Institute	TS Kenan Institute	2,000.00	09/30/02
Special Assistant to Associate Director of Kenan Institute	TS Kenan Institute	1,685.60	12/20/02
Associate VC for Special Projects	Finance & Administration	3,000.00	04/30/03
Controller	Finance & Administration	3,000.00	04/30/03
Associate VC for Information Tech /CIO	Information Technologies	2,000.00	06/30/03
Associate VC for Finance	Finance & Administration	2,000.00	06/30/03
Director of Facilities Management Plan	Finance & Administration	3,000.00	06/30/03
	<b>Total</b>	<b>16,685.60</b>	

## 2002-2003 ONE-TIME SPECIAL PAYMENTS TO SPA EMPLOYEES SUBJECT TO THE FAIR LABOR STANDARDS ACT (See Note A Below):

Personnel Analyst I*	Finance & Administration	3,500.00	01/31/03
Payroll Clerk**	Finance & Administration	1,500.00	04/30/03
Administrative Assistant I***	Stevens Center	1,500.00	05/30/03
Office Assistant III***	School of Drama	2,400.00	05/30/03
Sales Clerk II***	Finance & Administration (Campus Bookstore)	2,000.00	05/30/03
	<b>Total</b>	<b>10,900.00</b>	

*NOTE: This one-time payment occurred in the 2001-2002 fiscal year:*

Personnel Analyst I*	Finance & Administration	5,000.00	03/28/02
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\* Employee received significant overtime compensation during the period noted

\*\* Employee received some nominal overtime compensation during the period noted

\*\*\* Employee did not receive any overtime compensation during the period noted

## 2002-2003 ONE-TIME SPECIAL PAYMENTS TO SPA EMPLOYEES NOT SUBJECT TO THE FAIR LABOR STANDARDS ACT (See Note B Below):

Administrative Secretary III	School of Drama	3,059.42	07/31/02
Information & Communication Specialist I	Public Relations	2,500.00	09/30/02
Student Center Technician	Fitness Center	1,000.00	11/27/02
Administrative Assistant II	TS Kenan Institute	1,180.80	12/20/02
Recreation Worker I	Fitness Center	1,000.00	01/31/03
Accountant I (Assistant Controller)	Finance & Administration	3,000.00	04/30/03
Executive Assistant I	Finance & Administration	3,000.00	04/30/03
Administrative Officer I	Stevens Center	4,000.00	05/30/03
	<b>Total</b>	<b>20,740.22</b>	

Total of all One-Time Payments

53,325.82

**Note A:** A SPA employee subject to the FLSA must be paid a premium rate (time and one-half) in the form of monetary compensation or time off for hours worked in excess of 40 within a week

**Note B:** A SPA employee not subject to the FLSA earns compensatory leave on an hour for hour basis - employee can not be paid for this leave

**Note C:** An EPA employee does not earn compensatory leave or receive longevity payments

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## TITLES/NAMES USED IN REPORT

<u>Title</u>	<u>Name</u>	<u>Employment</u>
Chancellor	Wade Hobgood	7/1/00 - Present
Vice Chancellor for Finance and Administration	Joe Dickson	10/29/90 – 7/13/04
Provost/Vice Chancellor for Arts and Academic Programs	Lucinda Lavelli	8/1/02 - Present
Executive Assistant to the Vice Chancellor for Finance and Administration	Carol Phillips	1/1/01 – Present
Dean of the School of Filmmaking	Dale Pollock	1/1/99 – Present
Director of Human Resources	Mack Greer	9/1/99 – 10/31/04
Personnel Technician II	Berdette Malloy	8/1/80 – Present
Personnel Officer II	Berdette Malloy	8/1/80 – Present
Interim Human Resources Director	Berdette Malloy	8/1/80 – Present
Assistant Director of Human Resources	Berdette Malloy	8/1/80 – Present
Special Assistant to the Vice Chancellor	Berdette Malloy	8/1/80 – Present
Personnel Analyst	Berdette Malloy	8/1/80 – Present
Payroll Clerk	Debbie Gunter	11/12/01 – Present
Assistant Controller	Calsine Pitt	7/1/99 – 9/1/04
Assistant Vice Chancellor for Special Projects	Constance Mallette	5/1/98 – Present
Controller	Debbie Hodge	8/22/84 – Present
Associate Vice Chancellor for Finance and Budget	Steve Mack	7/1/89 – Present
Personnel Assistant	Cynthia Little	6/1/98 – 1/3/04

**Titles/Names Used in Report**

<u>Title</u>	<u>Name</u>	<u>Employment</u>
Associate Vice Chancellor for Information Technologies	Lisa Weatherman	9/26/88 – Present
Director of Facilities Management Plan	Brent Lafever	2/27/95 – Present
Special Assistant to the Associate Director of the Kenan Institute for the Arts	Jeanette Valentine	8/1/92 - Present
Director of Budget (Foundation Controller)	Donna Sexton	3/9/87 – Present
President of the Foundation's Board of Directors (Current)	Jeff Whittington	7/1/03 - Present



September 27, 2004

Mr. Ralph Campbell, Jr.  
State Auditor  
State of North Carolina  
Office of the State Auditor  
2 South Salisbury Street  
Raleigh, NC 27699-0601

Re: Response from the North Carolina School of the Arts and the North Carolina School of the Arts Foundation, Inc.

Dear Mr. Campbell:

Thank you for your thorough, careful work and professionalism in connection with the Special Review of the North Carolina School of the Arts and the North Carolina School of the Arts Foundation, Inc. We appreciate your assistance in identifying and rectifying certain operational weaknesses. Both institutions are already stronger because of your efforts. We concur with your recommendations and have initiated corrective measures.

Enclosed please find our response to your report dated September 2004. The President of the Foundation Jeff Whittington joins in our response to Findings six through ten.

In the interest of providing accurate information to our campus community, once the Special Review has become public, we will be posting our response on the School's website [www.ncarts.edu](http://www.ncarts.edu) with a link to your website for the complete report.

Please contact me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Stephen P. Karr".

Stephen P. Karr  
Chairman  
North Carolina School of the Arts Board of Trustees

A handwritten signature in black ink that reads "Jeffrey C. Whittington".

Jeffrey C. Whittington  
President  
North Carolina School of the Arts Foundation, Inc.

cc: President Molly Corbett Broad  
Chancellor Wade Hobgood

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North Carolina School of the Arts  
1533 South Main Street (27127), P.O. Box 12189, Winston-Salem, North Carolina 27117-2189

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**RESPONSE TO SPECIAL REVIEW**  
**NORTH CAROLINA SCHOOL OF THE ARTS**  
**NORTH CAROLINA SCHOOL OF THE ARTS FOUNDATION, INC.**  
**September 2004**

**1. THE NORTH CAROLINA SCHOOL OF THE ARTS TWICE RECLASSIFIED A POSITION IN THE PERSONNEL DEPARTMENT WITHOUT THE APPROPRIATE APPROVAL OF THE UNIVERSITY OF NORTH CAROLINA OFFICE OF THE PRESIDENT AND THE OFFICE OF STATE PERSONNEL.**

We recommend NCSA adhere to all relevant UNC and OSP personnel policies and procedures for appropriate designation of EPA positions. The Human Resources Director should contact the Office of State Personnel or the UNC Office of the President for guidance on procedures when questions arise. In addition, NCSA should expedite corrective action in a timely manner when directed by either OSP or the UNC Office of the President. We reiterate the position stated by UNC that if any other unauthorized EPA positions exist on campus, the School should take steps to return the positions to the appropriate designation. Also, we recommend UNC review the personnel actions for the Personnel Analyst and consult with the North Carolina Attorney General's Office concerning the process for requesting any possible salary repayments, as provided by G.S. 143-64.80.

**NCSA Response:**

We agree. In fact, as soon as the Chancellor was advised in the fall of 2003 of the possible improper classification of EPA employees, an internal review was initiated. Subsequently, NCSA has taken significant actions to strengthen the Human Resource operation and improve its policies, procedures and practices. The Chancellor ordered that Human Resources report directly to him rather than the Vice Chancellor of Finance and Administration, as had been the historic practice at the School. In addition, NCSA has hired the well-respected and recently retired Senior Director of Personnel Services from UNC Greensboro to serve as Interim Human Resources Director. With the assistance of the Office of the President and the Office of State Personnel, a thorough review of all other EPA reclassifications has been performed to determine their appropriateness and required approvals. Recommended adjustments are presently being implemented.

NCSA will work with the Office of the President in determining the specific amount of overpayment in compensation that resulted from any incorrect personnel actions. NCSA will also cooperate with the Office of the President and the Attorney General's Office in obtaining repayment of salary overpayments made to the Personnel Analyst, who is no longer employed by

NCSA. To further address these issues, NCSA will develop a general policy clearly stating that failure to comply with personnel policies of the Office of the President and the Office of State Personnel will result in disciplinary action up to and including dismissal.

**2. FROM MAY 2001 THROUGH SEPTEMBER 2003, NCSA PAID THE PERSONNEL ANALYST \$69,112.34 FOR OVERTIME, WHICH APPEARS EXCESSIVE AND LACKS ADEQUATE SUPPORTING DOCUMENTATION. THIS AMOUNT INCLUDES \$22,753.21 IN INCORRECT CALCULATIONS FOR OVERTIME HOURS EARNED.**

We recommend NCSA ensure proper documentation is maintained to support overtime hours earned by its employees. Such documentation would include detailed and accurate timesheets, appropriate authorization and approval, and reason for overtime earned as well as reports/documents generated during the overtime hours worked. Supervisors should be aware of the amount and reason for overtime hours worked by subordinates. Overtime hours earned should be monitored to ensure hours claimed are actually worked. Timesheets should be attached to requests for overtime payments and be reviewed to ensure mathematical accuracy and proper tracking of overtime hours earned and paid. Special care should be taken to ensure that overtime earned at time and one-half is only computed at this rate one time to avoid overpayment. With regards to the existing overpayments, we recommend NCSA consult with the North Carolina Attorney General's Office concerning the process for requesting reimbursement, as provided by G.S. 143-64.80.

**NCSA Response:**

We concur. NCSA has developed new policies and procedures for overtime pay and will provide additional training to supervisors. Consistent with existing requirements, this policy requires that an employee's timesheet be submitted to payroll along with the request for payment and evidence of prior approval, except in cases of emergency. This policy will be further revised to incorporate specific requirements including a statement from the supervisor describing the purpose of the overtime and the need for the overtime work, the retention of any documents and reports produced during the overtime work, and annual approval for those areas for which overtime pay is authorized in lieu of compensatory time. In addition, NCSA has conferred with Attorney General's Office concerning the process for obtaining repayment of overpayments and will appropriately pursue any overpayment.

**3. FROM FEBRUARY 2001 THROUGH JANUARY 2004, THE SCHOOL OVERPAID A PERSONNEL ASSISTANT \$5,265.32 FOR INCORRECT OVERTIME CALCULATIONS.**

We reiterate the need for NCSA to ensure proper documentation is maintained to support overtime hours earned by its employees. Such documentation would include detailed and accurate timesheets, appropriate authorization and approval, and reason for overtime earned as well as reports/documents generated during the overtime hours worked. Supervisors should be aware of the amount and reason for overtime hours worked by subordinates. Overtime hours earned should be monitored to ensure hours claimed are actually worked. Timesheets should be attached to requests for overtime payments and be reviewed to ensure mathematical accuracy and proper tracking of overtime hours earned and paid. Special care should be taken to ensure that overtime earned at time and one-half is only computed at this rate one time to avoid overpayment. With regards to the existing overpayments, we recommend NCSA consult with the North Carolina Attorney General's Office concerning the process for requesting reimbursement, as provided by G.S. 143-64.80.

**NCSA Response:**

We concur. NCSA will appropriately pursue repayment of the \$5,265.32 overpayment to the Personnel Assistant following consultation with the Attorney General's Office. As noted above, NCSA has developed a new policy and procedure for authorizing, documenting and approving overtime that requires attachment of the timesheet.

**4. NCSA INAPPROPRIATELY PAID 20 SPA AND EPA EMPLOYEES SPECIAL ONE-TIME PAYMENTS TOTALING \$53,325.**

We recommend the School discontinue paying one-time payments to SPA employees who are ineligible to receive such compensation. SPA employees subject to the Fair Labor Standards Act should be compensated with time or money earned at the time and one-half rate for all hours worked over 40 during the week. SPA employees not subject to the Act should earn compensatory leave on an hour-for-hour basis for all time worked over 40 hours. OSP procedures should be followed in the cases where additional compensation is merited for dual employment, in-range adjustments and acting promotions. All overtime earned should be adequately documented on employee's timesheets and approved by supervisors. Supervisors should be aware of duties performed outside of employees' regular schedules to ensure accuracy in recording and the true need for hours earned.

**We recommend the University of North Carolina develop a written policy addressing one-time special payments to EPA employees in order to ensure consistency among the 16 constituent institutions. If the University of North Carolina determines the payments are appropriate, the policy should require adequate documentation be submitted with payment requests and maintained to support the reason for and the accuracy of one-time payments.**

**With regard to the questionable one-time special payments, we recommend NCSA consult with the North Carolina Attorney General's Office concerning repayments by employees, as provided by G.S. 143-64.80.**

**NCSA Response:**

We agree. Except when in accordance with OSP policies and procedures governing dual employment, in-range adjustments and acting promotions, NCSA has stopped paying one-time special payments to SPA employees. Furthermore, NCSA will pay additional compensation to EPA employees only in strict accordance with a newly developed campus policy, once it is reviewed and approved by the UNC Office of the President. NCSA has consulted with the Attorney General's Office regarding repayment by employees of any questionable one-time special payments that are ultimately determined to be overpayments. NCSA will comply with all additional policies that the Board of Governors may develop regarding additional compensation to EPA employees. NCSA will provide training to supervisors concerning these policies and the consequences for not complying.

**5. THE PERSONNEL ANALYST APPROVED PERSONNEL ACTIONS, INCLUDING OVERTIME AND ONE-TIME PAYMENTS FOR HER SISTER.**

**We recommend no NCSA employees be involved in the authorization of payroll changes for immediate family members.**

**NCSA Response:**

We agree. NCSA will ensure that appropriate internal controls are in place so that no employee is in the position to control the pay or other compensation for an immediate family member or to process related pay transactions.

**6. EMPLOYEES APPEAR TO BE ABUSING THE EMPLOYEE LOAN PROGRAM BY TREATING THE FUNDS AS REVOLVING LINES OF CREDIT, EXCEEDING ALLOWED LOAN AMOUNTS AND FAILING TO REPAY LOANS WITHIN THE REQUIRED TIME LIMIT.**

**Management should enforce the loan fund guidelines regarding legitimate use of loan funds, timely repayment of loans and allowable loan amounts. Measures should be taken to ensure employees are not allowed to treat the emergency loan program as a revolving line of interest free credit.**

**NCSA and Foundation Response:**

We concur. NCSA will work with the NCSA Foundation to develop more stringent policies and procedures to determine financial need and to ensure compliance with the loan fund guidelines. The Board of Directors of the NCSA Foundation, which holds the Loan Fund, will henceforth participate directly in reviewing loan applications and repayments. Outstanding loans that do not conform to the spirit of the present guidelines will be resolved as soon as possible.

**7. STATE AND FOUNDATION FUNDS WERE USED TO IMPROPERLY FUND DISCRETIONARY ACCOUNTS NOT REPORTED TO THE FOUNDATION BOARD OF DIRECTORS.**

**We recommend someone independent of the Vice Chancellor for Finance and Administration be appointed to manage the operations of the Foundation. In addition, we recommend the Foundation consult with legal counsel regarding any possible reimbursement.**

**NCSA and Foundation Response:**

We concur. Administrative management of the Foundation has been separated from the Vice Chancellor for Finance and Administration position and is now the responsibility of the Vice Chancellor for Advancement. Once the Vice Chancellor for Finance and Administration position is filled, NCSA will implement additional checks and balances to raise the level of integrity relative to financial operations and reporting. The NCSA Foundation Board has expanded its Finance Committee to include two new members with extensive financial accounting experience and will completely restructure its financial reporting system. Also, on July 13, 2004, the Executive Committee elected a new, more geographically accessible treasurer.

NCSA and the NCSA Foundation have agreed to a process that will restore restricted funds that were used for unrestricted purposes. In addition, the NCSA Foundation will perform a review of all expenditures from the discretionary accounts in question to determine, in consultation with legal counsel, any amounts that should be recovered from individuals and will appropriately pursue recovery of those amounts.

8. THE VICE CHANCELLOR FOR FINANCE AND ADMINISTRATION RECEIVED IN EXCESS OF \$90,000 OVER 13 YEARS FROM THE NCSA FOUNDATION, INC., IN VIOLATION OF THE UNIVERSITY OF NORTH CAROLINA POLICIES. IN ADDITION, THE FOUNDATION CONTROLLER MISLED AUDITORS CONCERNING THE PAYMENTS.

We recommend the Foundation cease paying expense allowances, and instead reimburse NCSA employees directly for expenses incurred while conducting Foundation activities.

**NCSA and Foundation Response:**

We agree. The NCSA Foundation ceased paying the former Vice Chancellor for Finance and Administration an expense allowance for his services as Assistant Secretary/Treasurer of the Foundation, with the last payment being made in January 2004. No other such expense allowances exist. NCSA will re-communicate to Senior Academic and Administrative Officers, such as the vice chancellors, provosts and deans, the policies prohibiting compensation for any services rendered to any institution-related foundation, endowment or other University-related enterprise and the consequences for violating them. In addition, we will review the circumstances concerning the Controller's admission that she misled the auditors concerning the payments and will take appropriate personnel action.

9. THE VICE CHANCELLOR FOR FINANCE AND ADMINISTRATION TRANSFERRED THE TITLE TO REAL PROPERTY WITHOUT AUTHORIZATION RESULTING IN THE MISAPPLICATION OF \$108,000 FROM THE NORTH CAROLINA SCHOOL OF THE ARTS FOUNDATION, INC.

The North Carolina School of the Arts Foundation should seek reimbursement for the \$108,000 deposited in the North Carolina School of the Arts Program Support Corporation's checking account.

**NCSA and Foundation Response:**

We concur. With respect to the proceeds from this real estate transaction, we have reached an agreement with the NCSA Foundation making it financially whole.

10. THE VICE CHANCELLOR FOR FINANCE AND ADMINISTRATION MISAPPLIED \$177,945 FROM THE NORTH CAROLINA SCHOOL OF THE ARTS FOUNDATION, INC., THROUGH THE TRANSFER OF OWNERSHIP AND SUBSEQUENT DISPOSITION OF REAL PROPERTY.

**The Foundation should seek reimbursement of \$177,945 from the NCSA Program Support Corporation.**

**NCSA and Foundation Response:**

We concur. The NCSA Program Support Corporation has repaid the NCSA Foundation the total amount of the proceeds from this real estate transaction.

**11. THE VICE CHANCELLOR FOR FINANCE AND ADMINISTRATION AND THE DEAN OF THE SCHOOL OF FILMMAKING RECEIVED COMPENSATION FROM NCSA UNITY DEVELOPMENT CORPORATION IN VIOLATION OF UNIVERISTY OF NORTH CAROLINA REGULATIONS.**

**The North Carolina School of the Arts should develop and implement management controls to ensure compliance with regulations adopted by the Board of Governors of the University of North Carolina. In addition, the Office of the President of the University of North Carolina should firmly emphasize the importance of its regulations and the consequences of noncompliance.**

**NCSA Response:**

While we accept and will carry out the recommendation, as the Special Report points out, NCSA had sought the advice and counsel of the Office of the President in evaluating the applicability of the UNC Board of Governor's policy to the Dean's proposed work on behalf of NCSA Unity Development Corporation, for which he has been fully compensated. A good-faith interpretation of the rules had also been applied in this instance to the Vice Chancellor for Finance and Administration, another employee within the classification of Senior Academic and Administrative Officers. NCSA will adhere to any and all interpretations, clarifications, or directives issued by the Office of the President concerning compensation for Senior Academic and Administrative Officers. NCSA will also develop and promulgate the additional management controls necessary to ensure compliance with policies adopted by the Board of Governors. In addition, NCSA will re-communicate to Senior Academic and Administrative Officers, such as vice chancellors, provosts and deans, the policies prohibiting compensation for any services rendered to any institution-related foundation, endowment or other University-related enterprise and the consequences for failing to follow them.



**The University of North Carolina**

**OFFICE OF THE PRESIDENT**

**POST OFFICE BOX 2688, CHAPEL HILL, NC 27515-2688**

**MOLLY CORBETT BROAD, *President***

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Western Carolina University

Winston-Salem State University

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September 27, 2004

Mr. Ralph Campbell, Jr.  
North Carolina State Auditor  
Office of the State Auditor  
2 South Salisbury Street  
Raleigh, North Carolina 27699-0601

Dear Mr. Campbell:

**RE: Response to the Special Review of the North Carolina School of the Arts**

Enclosed you will find the response of the UNC Office of the President to the special review your office recently completed at the North Carolina School of the Arts. As requested, the response outlines actions taken or planned by this office in light of the review team's findings and recommendations. We appreciate the thoroughness and professionalism your staff exhibited throughout this process and will move quickly to implement all proposed steps. If you have questions or need further clarification, please do not hesitate to contact me.

Sincerely,

Molly Corbett Broad

Enclosure

cc: Chairman Stephen P. Karr  
President Jeff Whittington  
Chancellor Wade Hobgood

**Response of the UNC Office of the President to the Special Review of the North Carolina School of the Arts by the Office of the State Auditor**

All senior officers of the University of North Carolina are expected to perform their responsibilities professionally and ethically. Thus, the Auditor's findings in this special review that indicate certain officers of the North Carolina School of the Arts deliberately circumvented established University policies and procedures and intentionally misled members of the NCSA Foundation Board of Directors are deeply troubling. Particularly troubling are findings that implicate the School's chief financial officer, an individual entrusted to set the standard for adhering to policies and procedures and providing information about transactions in a forthright manner.

Findings presented by the Auditor reveal that on multiple occasions, clear guidance from the UNC Office of the President and policies of the UNC Board of Governors were ignored, and decisions were made that directly conflicted with known policies and directives. When the School's Chancellor was made aware of the situations described in this review, he acted decisively and with the full support of the Office of the President in accepting the resignations of two key individuals and in later accepting the resignation of a third employee. In taking prompt action, the Chancellor acted in the best interests of the institution. The Office of the President will continue to provide legal and financial services support to the Chancellor until all cited issues are fully resolved.

We acknowledge that designation as a special responsibility constituent institution is a critically important management tool for our campuses that comes with an inherent responsibility to exercise the highest levels of fiscal accountability and professional judgment. Errors in judgment clearly have occurred at the NC School of the Arts in this instance. Consistent with statutory requirements, the Chancellor will be notified immediately that the School has 90 days to show satisfactory progress in resolving all special review findings or the President will recommend to the Board of Governors that budget flexibility for the institution be withdrawn.

In addition to recommending that the School's budget flexibility be "carefully and fully reviewed," the Auditor makes several other recommendations concerning general University operations for consideration by the Office of the President. Responses to those specific recommendations are listed below.

- On page 20, the Auditor recommends that "UNC review the personnel actions for the Personnel Analyst and consult with the North Carolina Attorney General's Office concerning the process for requesting any possible salary repayments." Consistent with other recommendations in the special review, the Office of the President will work with responsible individuals at the School of the Arts to carry out the Auditor's recommendation.
- On page 31, the Auditor recommends that the University "develop a written policy addressing one-time special payments to EPA employees in order to ensure consistency among the 16 constituent institutions." We concur with this recommendation and will recommend that the Board of Governors adopt a policy that specifies when one-time payments are appropriate, who must approve the expenditure(s), and what documentation is required.
- On page 56, the Auditor recommends, with respect to the Board of Governors' prohibition of Senior Officers receiving supplemental pay from UNC foundations and other related entities, that "the Office of the President of the University of North Carolina should firmly emphasize the importance of its regulations and the consequences of noncompliance." The Office of the President does not agree with the Auditor's conclusion that the Unity Development Corporation is an entity that was intended to come within the meaning of this policy. Nonetheless, in light of this ambiguity, the President will recommend that the Board of Governors clarify its policy, and she will reiterate to the Chancellors and all Senior Officers of the University the importance of following Board policies and regulations and remind them that noncompliance can result in dismissal.

- On page 58, the Auditor recommends that “the President of the University and the Board of Governors review its policies regarding foundations and related organizations associated with constituent institutions in the University of North Carolina system. More specifically we recommend the University of North Carolina and the Board of Governors require each institution to identify all foundations and related organizations and provide the University of North Carolina with a report of their activities including revenue and expenditures.” As cited in the special review, the Board of Governors in 1990 established a requirement that foundations be audited annually and that a copy of the audits be provided to the Office of the President. In 1997, the Board of Governors approved a subsequent resolution directing the President to require that foundations establish organizational standards and implement appropriate financial controls. The Program Support Foundation described in the special review should have met the Board’s standards, but did not. While this foundation was formed after annual audit and reporting requirements were instituted, the Office of the President had no knowledge of its existence. The President will immediately survey each chancellor to determine whether other such foundations exist. In addition, with respect to the annual certifications that must be signed by the chancellors to comply with reporting requirements under budget flexibility, the President will hereafter require that the chancellors list all affiliated foundations and entities, affirm that they have adequate financial controls in place, and attest that no other affiliated foundations or entities exist.

September 27, 2004

## **DISTRIBUTION OF AUDIT REPORT**

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

### **EXECUTIVE BRANCH**

The Honorable Michael F. Easley  
The Honorable Beverly M. Perdue  
The Honorable Richard H. Moore  
The Honorable Roy A. Cooper, III  
Mr. David T. McCoy  
Mr. Robert L. Powell

Governor of North Carolina  
Lieutenant Governor of North Carolina  
State Treasurer  
Attorney General  
State Budget Officer  
State Controller

### **LEGISLATIVE BRANCH**

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight  
Representative James B. Black  
Representative Richard Morgan  
Members of the Local Legislative Delegation  
Mr. James D. Johnson

Senate President Pro Tem  
Speaker of the NC House of Representatives  
Speaker of the NC House of Representatives  
NC House and Senate  
Director, Fiscal Research Division

### **OTHER PARTIES**

Mrs. Molly Corbett Board  
Mr. Stephen P. Karr

Mr. Jeff Whittington

Ms. Robin Pendergraft  
Mr. Thomas J. Keith

President, University of North Carolina  
Chairman, North Carolina School of the Arts  
Board of Trustees  
President, North Carolina School of the Arts  
Foundation, Inc., Board of Directors.  
Director, North Carolina State Bureau of Investigation  
District Attorney for the 21<sup>st</sup> Prosecutorial District

October 5, 2004

## **ORDERING INFORMATION**

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Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647





## **Findings and Recommendations**

1. THE NORTH CAROLINA SCHOOL OF THE ARTS TWICE RECLASSIFIED A POSITION IN THE PERSONNEL DEPARTMENT WITHOUT THE APPROPRIATE APPROVAL OF THE UNIVERSITY OF NORTH CAROLINA OFFICE OF THE PRESIDENT AND THE OFFICE OF STATE PERSONNEL.

### **RECOMMENDATION**

We recommend NCSA adhere to all relevant UNC and OSP personnel policies and procedures for appropriate designation of EPA positions. The Human Resources Director should contact the Office of State Personnel or the UNC Office of the President for guidance on procedures when questions arise. In addition, NCSA should expedite corrective action in a timely manner when directed by either OSP or the UNC Office of the President. We reiterate the position stated by UNC that if any other unauthorized EPA positions exist on campus, the School should take steps to return the positions to the appropriate designation. Also, we recommend UNC review the personnel actions for the Personnel Analyst and consult with the North Carolina Attorney General's Office concerning the process for requesting any possible salary repayments, as provided by G.S. §143-64.80.

2. FROM MAY 2001 THROUGH SEPTEMBER 2003, NCSA PAID THE PERSONNEL ANALYST \$69,112.34 FOR OVERTIME, WHICH APPEARS EXCESSIVE AND LACKS ADEQUATE SUPPORTING DOCUMENTATION. THIS AMOUNT INCLUDES \$22,753.21 IN INCORRECT CALCULATIONS FOR OVERTIME HOURS EARNED.

### **RECOMMENDATION**

We recommend NCSA ensure proper documentation is maintained to support overtime hours earned by its employees. Such documentation would include detailed and accurate timesheets, appropriate authorization and approval, and reason for overtime earned as well as reports/documents generated during the overtime hours worked. Supervisors should be aware of the amount and reason for overtime hours worked by subordinates. Overtime hours earned should be monitored to ensure hours claimed are actually worked. Timesheets should be attached to requests for overtime payments and be reviewed to ensure mathematical accuracy and proper tracking of overtime hours earned and paid. Special care should be taken to ensure that overtime earned at time and one-half is only computed at this rate one time to avoid overpayment. With regards to the existing overpayments, we recommend NCSA consult with the North Carolina Attorney General's Office concerning the process for requesting reimbursement, as provided by G.S. §143-64.80.



3. FROM DECEMBER 2001 THROUGH JANUARY 2004, THE SCHOOL OVERPAID A PERSONNEL ASSISTANT \$5,265.32 FOR INCORRECT OVERTIME CALCULATIONS.

#### **RECOMMENDATION**

We reiterate the need for NCSA to ensure proper documentation is maintained to support overtime hours earned by its employees. Such documentation would include detailed and accurate timesheets, appropriate authorization and approval, and reason for overtime earned as well as reports/documents generated during the overtime hours worked.

Supervisors should be aware of the amount and reason for overtime hours worked by subordinates. Overtime hours earned should be monitored to ensure hours claimed are actually worked. Timesheets should be attached to requests for overtime payments and be reviewed to ensure mathematical accuracy in overtime hours computed and balances carried from month to month. Special care should be taken to ensure that overtime earned at time and one-half is only computed at this rate one time to avoid overpayment. With regards to the existing overpayments, we recommend NCSA consult with the North Carolina Attorney General's Office concerning the process for seeking reimbursement, in accordance with G.S. §143-64.80.

4. NCSA INAPPROPRIATELY PAID 20 SPA AND EPA EMPLOYEES SPECIAL ONE-TIME PAYMENTS TOTALING \$53,325.

#### **RECOMMENDATION**

We recommend NCSA discontinue paying one-time payments to SPA employees who are ineligible to receive such compensation. SPA employees subject to the Fair Labor Standards Act should be compensated with time or money earned at the time and one-half rate for all hours worked over 40 during the week. SPA employees not subject to the Act should earn compensatory leave on an hour-for-hour basis for all time worked over 40 hours. OSP procedures should be followed in the cases where additional compensation is merited for dual employment, in-range adjustments and acting promotions. All overtime earned should be adequately documented on employees' timesheets and approved by supervisors. Supervisors should be aware of duties performed outside of employees' regular schedules to ensure accuracy in recording and the true need for hours earned.

We recommend the University of North Carolina develop a written policy addressing onetime special payments to EPA employees in order to ensure consistency among the 16 constituent institutions. If the University of North Carolina determines the payments are appropriate, the policy should require adequate documentation be submitted with payment requests and maintained to support the reason for and the accuracy of one-time payments.

With regards to the questionable one-time special payments, we recommend NCSA consult with the North Carolina Attorney General's Office concerning repayments by employees, as provide by G.S. §143-64.80.



5. THE PERSONNEL ANALYST APPROVED PERSONNEL ACTIONS, INCLUDING OVERTIME AND ONE-TIME PAYMENTS FOR HER SISTER.

**RECOMMENDATION**

We recommend no NCSA employees be involved in the authorization of payroll changes for immediate family members.

6. EMPLOYEES APPEAR TO BE ABUSING THE EMPLOYEE LOAN PROGRAM BY TREATING THE FUNDS AS REVOLVING LINES OF CREDIT, EXCEEDING ALLOWED LOAN AMOUNTS AND FAILING TO REPAY LOANS WITHIN THE REQUIRED TIME LIMIT.

**RECOMMENDATION**

Management should enforce the loan fund guidelines regarding legitimate use of loan funds, timely repayment of loans and allowable loan amounts. Measures should be taken to ensure employees are not allowed to treat the emergency loan program as a revolving line of interest free credit.

7. STATE AND FOUNDATION FUNDS WERE USED TO IMPROPERLY FUND DISCRETIONARY ACCOUNTS NOT REPORTED TO THE FOUNDATION BOARD OF DIRECTORS.

**RECOMMENDATION**

We recommend someone independent of the Vice Chancellor for Finance and Administration be appointed to manage the operations of the Foundation. In addition, we recommend the Foundation consult with legal counsel regarding any possible reimbursement.

8. THE VICE CHANCELLOR FOR FINANCE AND ADMINISTRATION RECEIVED IN EXCESS OF \$90,000 OVER 13 YEARS FROM THE NCSA FOUNDATION, INC., IN VIOLATION OF THE UNIVERSITY OF NORTH CAROLINA POLICIES. IN ADDITION, THE FOUNDATION CONTROLLER MISLED AUDITORS CONCERNING THE PAYMENTS.

**RECOMMENDATION**

We recommend the Foundation cease paying expense allowances, and instead reimburse NCSA employees directly for expenses incurred while conducting Foundation activities.



9. THE VICE CHANCELLOR FOR FINANCE AND ADMINISTRATION TRANSFERRED THE TITLE TO REAL PROPERTY WITHOUT AUTHORIZATION RESULTING IN THE MISAPPLICATION OF \$108,000 FROM THE NORTH CAROLINA SCHOOL OF THE ARTS FOUNDATION, INC.

**RECOMMENDATION**

The North Carolina School of the Arts Foundation should seek reimbursement for the \$108,000 deposited in the North Carolina School of the Arts Program Support Corporation's checking account.

10. THE VICE CHANCELLOR FOR FINANCE AND ADMINISTRATION MISAPPLIED \$177,585 FROM THE NORTH CAROLINA SCHOOL OF THE ARTS FOUNDATION, INC., THROUGH THE TRANSFER OF OWNERSHIP AND SUBSEQUENT DISPOSITION OF REAL PROPERTY

**RECOMMENDATION**

The Foundation should seek reimbursement of \$177,945 from the NCSA Program Support Corporation.

11. THE VICE CHANCELLOR FOR FINANCE AND ADMINISTRATION AND THE DEAN OF THE SCHOOL OF FILMMAKING RECEIVED COMPENSATION FROM NCSA UNITY DEVELOPMENT CORPORATION IN VIOLATION OF UNIVERSITY OF NORTH CAROLINA REGULATIONS.

**RECOMMENDATION**

The North Carolina School of the Arts should develop and implement management controls to ensure compliance with regulations adopted by the Board of Governors of the University of North Carolina. In addition, the Office of the President of the University of North Carolina should firmly emphasize the importance of its regulations and the consequences of noncompliance.



Statement from NC School of the Arts Chancellor Wade Hobgood

The State Auditor today issued a Special Review of the North Carolina School of the Arts. Before I get to my remarks, I want to be clear about three items:

1. As Chancellor of the North Carolina School of the Arts, I accept responsibility, and I will ensure that the School will implement the actions identified by the review.
2. Every penny of Foundation money that was misallocated . . . money that came from donors . . . every penny will be returned to the Foundation.
3. We have turned our financial house inside out. Outside experts are advising us, and we have put the financial operations of the School and the Foundation on solid ground.

We respond to every finding in the Special Review on our website ([www.ncarts.edu](http://www.ncarts.edu)) and list actions we have taken. I invite you to read it. For brevity's sake, I have attached a brief response to every finding in the written copy of my statements today.

1. I regret these audit findings, and I have already taken significant steps to ensure these kinds of financial problems never happen again.
2. Mistakes were made. A primary error was to leave the School of the Arts Foundation in the dark while one of our administrators allocated a great deal of Foundation money without the Foundation's knowledge or mine... and in violation of UNC policies. On behalf of the school, I apologize to the Foundation Board, especially to the Executive Committee and officers who have been dealing with this problem for three months, and, most of all, to the donors who placed their trust in the Foundation and the School.



3. This is important... donors to the school do NOT have to worry about their contributions. They are secure. No endowment money was affected. Our donors' money is safe. Over the next three to six months, the Foundation will conduct an exhaustive review of expenditures from the Foundation discretionary accounts to determine whether any money was used for personal gain. If that review uncovers any such gain, the foundation will seek the return of that money from the individuals involved.
4. Foremost in our minds are our students, faculty, and staff. We are doing everything possible to ensure that they and our educational programs are not adversely affected.
5. As soon as I realized there were problems in the fall of 2003, I began making changes. Some of those steps are listed in this document and on the website. However, I want to highlight four of them.
  - a. Early last November, I reorganized and ordered that the Human Resources Director and Internal Auditor report directly to me.
  - b. We have taken appropriate personnel actions.
  - c. This summer I engaged retired Vice Chancellor of Finance from East Carolina University, Richard Brown, and Associate Vice President for the UNC President's office, George Burnette, to assess and strengthen our financial systems. Mr. Brown's review and suggested actions are on the website. Mr. Burnette is acting Vice Chancellor for Finance and Administration.
  - d. I hired a well-respected, recently retired Senior Director of Personnel Services from UNCG, Melvin Ward, to strengthen the Human Resources operations.



6. We are working with the Foundation and all parties connected to the School to create transparency. NCSA will implement more checks and balances to raise the integrity of financial operations, including hiring a new part-time internal auditor. The finances of the NC School of the Arts and the Foundation are under proper management and the funds are controlled.
7. Finally, Film School Dean Dale Pollock did not violate trust at the School. The review said Dean Pollock received money as a consultant while trying to help make the Unity Place development a reality. Indeed he did. The Unity Board asked him to assist with the establishment of the movie theater complex and Imax Theater, and I approved. To ensure separation of Unity work and his responsibilities as dean, I required that he work outside of School hours and be paid by outside sources. He gave a written accounting of his activities to me to ensure that was so. The audit itself quotes me saying that, based on our conversations with UNC General Counsel, Dean Pollock had permission from UNC to work as he did. He is one the school's best assets and blameless in this situation.

In summary, I put faith and trust in my administrative team; and when that trust is violated by a member of that team, all of us at the NC School of the Arts and the Foundation are victimized. The Board of Trustees, the NCSA Foundation Board, and I had no knowledge that there were financial misapplications since there were no indications of problems with financial operations, including previous clean audits. It is clear with these revelations that deficiencies had been in place for many years, long before I arrived at the school four years ago.

Let me conclude by thanking the State Auditor for the thorough, careful, and professional work that brought many of these issues to light so that we could address them quickly. I would also like to thank UNC President Molly Broad and her staff for their support and participation in our problem-solving efforts and for allowing George Burnette to assist us



with our financial operations. Our responses to the review have already made the School and the Foundation better and stronger. The Board of Trustees, the Foundation Board, and I are dedicated to implementing the auditor's recommendations and enforcing UNC and NCSA policies to ensure the integrity of all the North Carolina School of the Arts' financial operations.

<u>State Auditor Findings</u>	<u>NCSA Actions*</u>
1. The North Carolina School of the Arts twice reclassified a position in the personnel department without the appropriate approval of the University of North Carolina Office of the President and the Office of State Personnel	<ul style="list-style-type: none"><li>• Performed a thorough review of all reclassifications and is implementing all recommended adjustments.</li></ul>
2. From May 2001 through September 2003, NCSA paid a personnel analyst \$69,112.34 for overtime, which appears excessive and lacks adequate supporting documentation. This amount includes \$22,753.21 in incorrect calculations for overtime hours earned.	<ul style="list-style-type: none"><li>• Will seek repayment from the personnel analyst, who is no longer an employee of NCSA.</li></ul>
3. From February 2001 through January 2004, the school overpaid a personnel assistant \$5,265.32 for incorrect overtime calculations.	<ul style="list-style-type: none"><li>• Developed new overtime procedures to prevent reoccurrence.</li></ul>
4. NCSA inappropriately paid 20 SPA (Subject to the State Personnel Act) and EPA (Exempt from the State Personnel Act) employees special one-time payments totaling \$53,325.	<ul style="list-style-type: none"><li>• Will seek repayment.</li><li>• Developed new overtime procedures to prevent reoccurrence.</li></ul>
5. The personnel analyst approved personnel actions, including overtime and one-time payments for her sister.	<ul style="list-style-type: none"><li>• Will seek repayment of any amount determined to be an overpayment.</li><li>• Will follow rules that apply to SPA employees and UNC policies that apply to EPA employees.</li></ul>
6. Employees appear to be abusing the employee loan program by treating the funds as revolving lines of credit, exceeding allowed loan amounts and	<ul style="list-style-type: none"><li>• Developing internal controls to prohibit employees from authorizing payroll changes for immediate family members.</li><li>• Will strengthen and enforce loan policies.</li><li>• Will directly involve the NCSA Foundation board in this process.</li></ul>



failing to repay loans within the required time limit.

7. State and Foundation funds were used to improperly fund discretionary accounts not reported to the Foundation Board of Directors.
  - Reached agreement to repay Foundation funds.
  - Implementing checks and balances.
  - Foundation will review discretionary accounts and pursue repayments.
8. The Vice Chancellor for Finance and Administration received in excess of \$90,000 over 13 years from the NCSA Foundation, Inc., in violation of the University of North Carolina policies. In addition, the Foundation Controller misled auditors concerning the payments.
  - Comply with UNC policies.
  - Taking appropriate personnel action.
9. The Vice Chancellor for Finance and Administration transferred the title to real property without authorization resulting in the misapplication of \$108,000 from the NCSA Foundation, Inc.
  - Reached agreement making Foundation whole concerning the proceeds from this transaction.
10. The Vice Chancellor for Finance and Administration misappropriated \$177,945 from the NCSA Foundation, Inc. through the transfer of ownership and subsequent disposition of real property.
  - North Carolina School of the Arts Program Support Corporation repaid Foundation the proceeds from this transaction.
11. The Vice Chancellor for Finance and Administration and the Dean of the School of Filmmaking received compensation from NCSA Unity Development Corporation in violation of University of North Carolina Regulations.
  - Acted in good faith based on UNC advice.
  - Will comply with UNC policies and any subsequent changes.

If you have questions, concerns, or need additional information please visit our website at [www.ncarts.edu](http://www.ncarts.edu) or call Susan Booth, Special Assistant to the Chancellor, (336-770-3202 or [booths@ncarts](mailto:booths@ncarts)).



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## JOINT LEGISLATIVE EDUCATION OVERSIGHT COMMITTEE

**Tuesday, November 9, 2004**  
**Legislative Building**  
**Room 1027/1128**  
**10:00 A.M.**

### **College Information System Project Report** **Implementation Status**

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**Presenter:**

Dr. Saundra Williams, Vice President for Administration, North Carolina Community College System

**Background:**

Dr. Williams will present the implementation status of the College Information System (CIS) Project by summarizing the CIS report for July through September 2004. This quarterly report is required by Section 8.1(b) of Session Law 2004-124. Section 9.9 of Session Law 1999-237 directed the State Board of Community Colleges to implement a comprehensive management information system for the 58 community colleges in North Carolina.

**General Considerations:**

- The members of the Committee know a great deal about education issues affecting the State. Some have been on local boards of education or boards of trustees. Some were educators before becoming state legislators. However, many come from different walks of life. Please target your remarks accordingly.
- Keep your formal remarks brief; 10 minutes is a good target; 20 minutes at a maximum. Legislators like to ask questions and enjoy the give and take of Q & A sessions.
- If you plan to use Power Point, please limit the number of slides and be sure everyone on the committee and in the room can read the slides. Legislators generally prefer Power Point or overheads when used to present graphs, charts, or lists.
- You should avoid using acronyms. If you find this is necessary, you may want to provide a handout that defines the terms.
- There are 25 members, and as many as 40-50 observers. You will need to provide 75 copies of any handouts.
- Attached is a list of issues and questions you may wish to address during your presentation. The Committee realizes you may not be able to address all of them and that you may wish to emphasize issues not listed. Committee members may have additional questions.

Driving Instructions to the Legislative Complex: <http://www.ncleg.net/help/directions.html>

## College Information System Project Report Implementation Status

**Presenter:**

Dr. Saundra Williams, Vice President for Administration, North Carolina Community College System

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### Issues/Questions

1. Provide a brief background and history of the College Information System Project.
2. What is the purpose of the Project?
2. What kinds of information will the System include?
3. What have been the problems associated with the Project and how have the problems been resolved?
4. Describe the phases of implementation and the timeline.
5. Elaborate on the planned and actual costs of implementation and training.

## Session Law 2004-124, HB 1414

### USE OF FUNDS FOR THE COLLEGE INFORMATION SYSTEM PROJECT

**SECTION 8.1.(a)** Funds appropriated to the Community Colleges System Office for the College Information System Project shall not revert at the end of the 2003-2004 fiscal year but shall remain available until expended.

**SECTION 8.1.(b)** The Community Colleges System Office shall report on a quarterly basis to the Joint Legislative Education Oversight Committee on the implementation of the College Information System Project.

**SECTION 8.1.(c)** Subsection (a) of this section becomes effective June 30, 2004.



# **NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**



## **House Bill 1414, Section 8.1.(b) College Information System (CIS) Project Implementation Status (July – September 2004)**

**Report to  
Joint Legislative Education Oversight Committee**

**H. Martin Lancaster  
President**

**Dr. Saundra W. Williams  
Vice President for Administration**

**Kennon D. Briggs  
Vice President for Business and Finance**

**October 28, 2004**





# North Carolina Community College System College Information System (CIS) Project

## BACKGROUND AND HISTORY

- Section 9.9 of Session Law 1999-237 directed the State Board of Community Colleges to implement a comprehensive management information system for the 58 community colleges, and provided \$8 million in the first year and \$15 million per year thereafter in recurring, non-reverting funds. (1998)
- The Appropriation recognized full scope and time line for full implementation could not be determined at that time, as this type of 'standardization' project had never been undertaken in higher education anywhere in the country.
- The original contract Award in 2000 was for \$42 million over five years.
- The Contract was awarded to Affiliated Computer Services (ACS) for Datatel's Colleague integrated software plus enhancements and implementation services at 58 colleges and the System Office.

## WHAT THE CIS SYSTEM INCLUDES

### Datatel Colleague Modules (Base System):

- Financial (Budgeting, Accounting, Purchasing & Accounts Payable, Finance Reporting) (approximately 20% of system)
- Human Resources (Personnel, Benefits, Payroll, Reporting) (approximately 20% of system)
- Student (Admissions, Financial Aid, Registration, Grading, Graduation, Reporting) (approximately 60% of system)

### System Enhancements

- State and Federal Legislative and Regulatory Mandates
- Literacy/Adult Education
- Course & Program Standards, Program Design & Approval, Combined Course Library and Program Auditing
- Small Business Center
- New & Expanding Industry Training
- Human Resource Development
- Developmental Education reporting
- Fire Certification
- Regional Calendar (Continuing Education)
- E-Procurement
- College Equipment Inventory, Facilities, Parking, Safety & Career Planning & Placement



# North Carolina Community College System College Information System (CIS) Project

## CIS IMPLEMENTATION CHALLENGES AND SOLUTIONS

### **1. Implementation Challenge: Training**

- Scope (several thousand staff at 58 colleges & System Office)
- Complexity (multiple modules, new functionality)
- New Processes (never used by Community Colleges before)

#### **Solution: College Training Centers**

- 2 Applications Training Centers (Wayne Community College and Central Piedmont Community College)
- 1 technical training center (Guilford Technical Community College)

### **2. Implementation Challenge: Accounts Receivable Cash Reporting (AR/CR)**

- Specifications not clearly defined at time of RFP
- Identified in 2002 implementation of Student System at seven Phase 1 colleges
- Further implementation of student module intentionally delayed until solution completed

#### **Solution: Delay implementation until all technical problems are fixed**

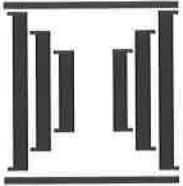
- All Stakeholders Involved (Colleges, OSBM, OSC, OSA, vendors)
- Developed Comprehensive Solution and Implementation Plan

### **3. Implementation Challenge: Time to Implement (based on college business cycles)**

- Financial system in July for Annual Financial Statement and Financial Audit
- Human Resources System in January for employee tax statements
- Student System in summer for fall term for Federal financial aid regulations and reporting

#### **Solution: Contract Extension**

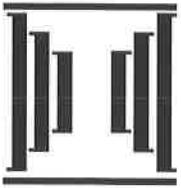
- Complete Implementation of CIS at 58 Colleges and System Office by 2007
- Vendor (ACS and Datatel) Services:
  - Training and Implementation Support for Student System
  - Software Support
  - Knowledge Transfer to NCCCS Staff
  - Cost \$30.4 million over 3 years (with a \$3.9 million credit for AR/CR)



## North Carolina Community College System College Information System (CIS) Project

### FOUR PHASES OF IMPLEMENTATION

<u>Phase 1 Colleges</u>	<u>Phase 2A Colleges</u>	<u>Phase 2B Colleges</u>	<u>Phase 2C Colleges</u>
Pitt CC Wayne CC	Cape Fear CC Carteret CC College of Albemarle Wilson TCC	Beaufort CC Edgecombe CC Lenoir CC Nash CC	Coastal Carolina CC Craven CC Halifax CC Martin CC Roanoke-Chowan CC
Guilford TCC South Piedmont CC	Fayetteville TCC Randolph CC Robeson CC Rockingham CC	Brunswick CC James Sprunt CC Johnston CC Sampson CC Wake TCC	Bladen CC Pamlico CC Southeastern CC Vance-Granville CC
Catawba Valley CC Central Piedmont CC	Davidson Co. CC Durham TCC Rowan-Cabarrus CC	Piedmont CC Richmond CC Sandhills CC Stanly CC	Alamance CC Central Carolina CC Montgomery CC Surry CC
Caldwell CC & TI Mayland CC	Asheville-Buncombe Blue Ridge CC Mitchell CC Western Piedmont CC	Forsyth TCC Gaston College Haywood CC Isothermal CC Wilkes CC	Cleveland CC McDowell CC Southwestern CC Tri-County CC



# North Carolina Community College System College Information System (CIS) Project

## Project Status Executive Summary

### 1. Accounts Receivable/Cash Reporting (AR/CR) Project

- The beta testing at the Phase 1 colleges was completed in June 2004.
- The Phase 1 colleges went “Live” with the AR/CR module on July 1 2004.
- Minor programming and workflow issues were identified in July and August and were resolved by ARCR Project team.
- Issues identified in September are being resolved by ongoing Minor Release/Help Desk teams (ACS, Datatel and the System Office)
- Reconciliation by the Business and Finance Division staff was completed September 30, 2004.

### 2. E-Procurement

- The testing for the e-procurement pilot colleges (Wayne Community College, Wake Technical Community College, Guilford Community College and Fayetteville Technical Community College) was completed in September 2004.
- Continuing resolution of software and workflow issues being resolved by ongoing Minor Release/Help Desk teams (ACS, Datatel and System Office) and Accenture.
- The documentation for software installation will be distributed in early October 2004.
- The remaining implementation and training will be scheduled and provided through the e-Procurement project (Department of Administration and Accenture).

### 3. Phase 2A

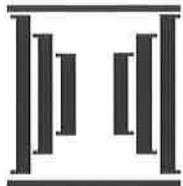
- The Phase 2A colleges have completed the implementation of the finance and human resource modules of the system.
- Training and mock simulations for the student system will continue through December 2004.
- Approval for Phase 2A ‘go live’ of the student system has been approved by the project Steering Committee.
- Data conversions will begin in November 2004.
- ‘Go live’ for Admissions and Financial Aid will occur January – February 2005
- ‘Go live’ for student registration will occur in July for the fall 2005 term.

### 4. Phase 2B

- The Phase 2B colleges have completed the implementation of the finance and human resource modules.
- Training for the student module will begin in March 2005.
- ‘Go live’ for Admissions and Financial Aid will occur January – February 2006.
- ‘Go live’ for student registration in July 2006 for the fall term.

### 5. Phase 2C

- The Phase 2C colleges have completed the implementation of the finance module (July 2004).
- The Phase 2C colleges are scheduled to ‘go live’ the human resource module in January 2005.
- Training for the student module will begin in March 2006.
- ‘Go live’ for Admissions and Financial Aid will occur January – February 2007.
- ‘Go live’ for student registration in July 2007 for the fall term.



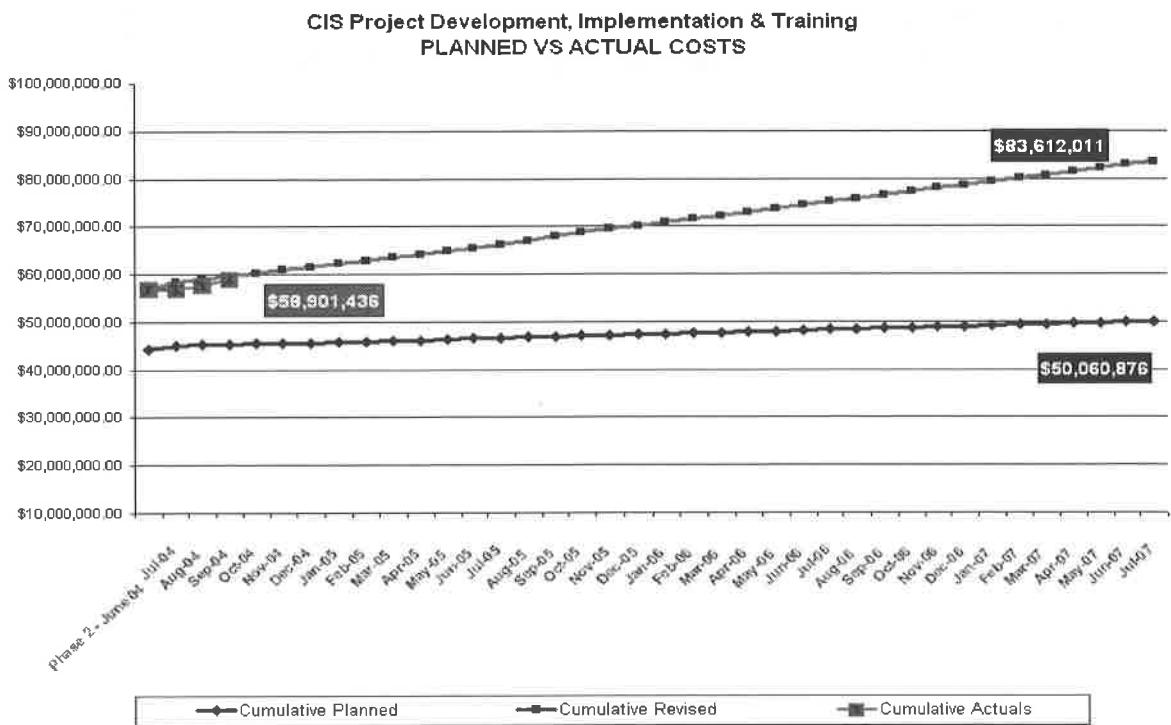
## North Carolina Community College System College Information System (CIS) Project

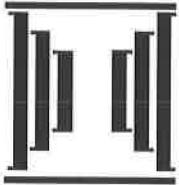
### PROJECT COST INFORMATION: ENDING SEPTEMBER 30, 2004

Project Costs	Original Budget	Approved Changes (+/-)	Revised Budget	Quarterly September Actuals	Project Actual to Date	Project Planned to Date
<b>CIS Project Costs</b>						
Development, Implementation and Training	\$50,060,876	\$33,551,135	\$83,612,011	\$1,997,784	\$58,901,436	\$59,752,535

### PLANNED AND ACTUAL PROJECT IMPLEMENTATION AND TRAINING COSTS:

(The graph reflects the development, implementation, and training costs given in the above table)





## North Carolina Community College System College Information System (CIS) Project

### PROJECT CONTRACT COSTS

The primary costs associated with the CIS Project are for the Contract Agreement between NCCCS and Affiliated Computer Services (ACS). To fully implement the CIS System at all 58 Community Colleges, this contract was extended 3 years to June 30, 2007. Below is a table of the ACS original contract costs and approved changes.

<b>ACS Contract</b>	<b>Orginal Contract</b>		<b>Contract Change</b>	
	<b>Costs</b>		<b>Costs</b>	
Customization & Enhancements	\$ 4,644,730.00		\$ 4,717,749.00	
Pilot Implementation	\$ 11,763,733.00		\$ 3,372,100.00	
General Implementation Initial Contract	\$ 12,934,428.00		\$ 5,744,657.00	
Contract Extension Implementation	\$ -		\$ 19,716,629.11	
Contract Extension Maintenance	\$ -		\$ 6,783,372.89	
<b><i>Implementation Services Subtotal</i></b>	<b>\$ 29,342,891.00</b>		<b>\$ 40,334,508.00</b>	<b>\$ 69,677,399.00</b>
Software Licenses Colleague	\$ 9,143,519.00		\$ -	
Software Licenses Third-Party	\$ 1,864,020.00		\$ -	
Software Maintenance Support	\$ 2,103,588.00		\$ 210,118.67	
<b><i>Software / Software Maint. Subtotal</i></b>	<b>\$ 13,111,127.00</b>		<b>\$ 210,118.67</b>	<b>\$ 13,321,245.67</b>
<b>Total Contract Costs</b>	<b>\$42,454,018.00</b>		<b>\$40,544,626.67</b>	<b>\$82,998,644.67</b>

**FY 2005-06  
Enrollment Estimates  
for  
North Carolina Education Agencies**



**Presentation to the  
Joint Legislative Education Oversight Committee**

**November 9, 2004**



# Enrollment Estimates for NC Education Agencies

## FY 2005-06

Education Agency	FY 2004-05 Funded Enrollment	FY 2005-06 Estimated Increase	Percent Increase	Estimated Cost to Fund Increase	Estimated Cost per 1% Increase	Estimated Cost per Additional Student
Public Schools	1,369,063	26,797	1.96%	\$ 141,000,000	\$ 72,037,125	\$ 5,262
Community Colleges	188,610	7,429 <i>2,493</i>	3.94% <i>1.32%</i>	\$ 23,192,443 <i>189,979</i>	\$ 5,888,177	\$ 3,122
Universities	190,274	5,849	3.07%	\$ 73,600,000	\$ 23,942,839	\$ 12,583
<b>Total</b>	<b>1,747,947</b>	<b>40,075</b>	<b>2.3%</b>	<b>\$ 237,792,443</b>	<b>\$ 101,868,140</b>	<b>N/A</b>

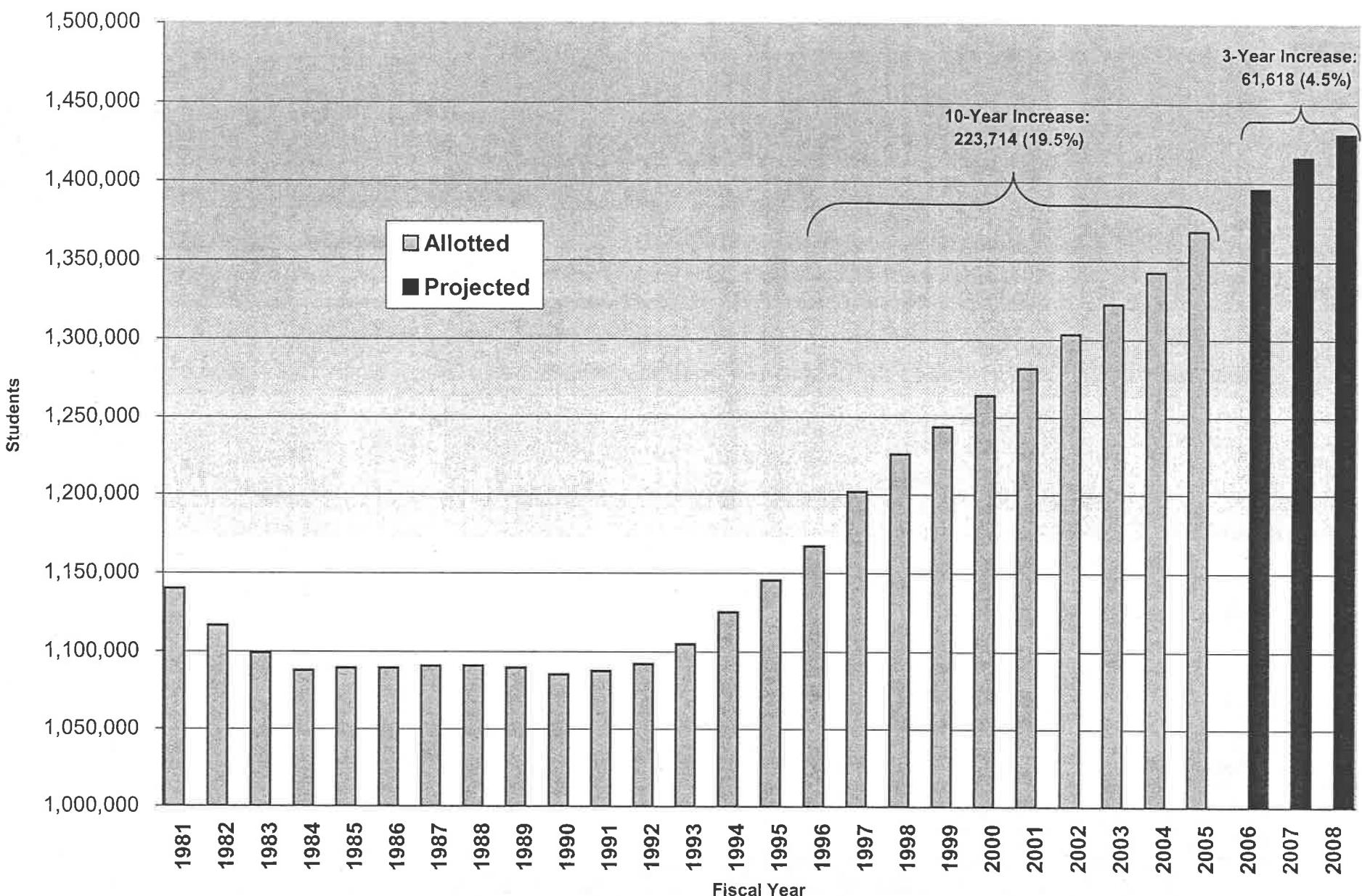
\* 222 M

### Notes:

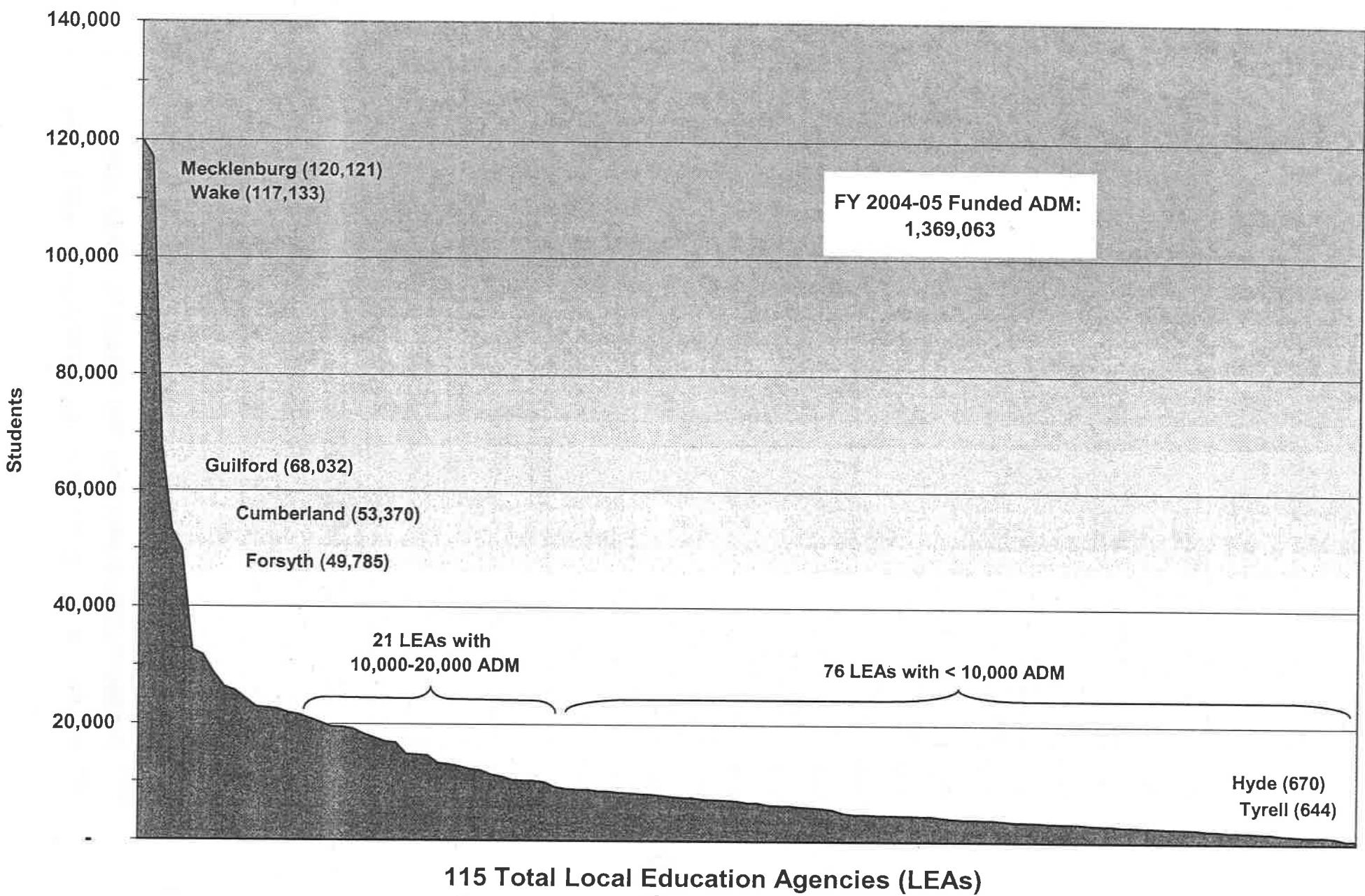
- (1) Funding for Community Colleges is based on prior year enrollment (Funding for Public Schools and UNC based on projected enrollment).
- (2) Enrollment and cost estimates provided, respectively, by NC Department of Public Instruction, NC Community Colleges System Office, and UNC-General Administration.

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# NC Public Schools (K-12) Average Daily Membership (ADM): FY 1981-2008



## Statewide Distribution of Average Daily Membership (ADM)



# NC Public Schools (K-12) Enrollment Quick Facts

## Scope

- Funded Average Daily Membership (ADM) for FY 2004-05 was 1,369,063.
- North Carolina has the 11th largest public school population in the US (National Center for Education Statistics, 2002).

## Distribution

- NC's ten largest school systems (local education agencies; "LEAs") account for 43% of statewide ADM (FY 2003-04); the 20 largest LEAs account for 56%.
- Two LEAs (Mecklenburg, Wake) each have over 110,000 students in ADM. 76 LEAs have fewer than 10,000 students in ADM.

## Growth

- Statewide ADM has increased by 223,000, or 20%, over the past ten years.
- The ten largest LEAs accounted for 72% of the growth in ADM between FY 2000-01 and FY 2003-04; the twenty largest accounted for 87% of the growth; 40 LEAs have experienced declining ADM.
- Estimated statewide growth in ADM in FY 2005-06 is 26,797, or 1.96%. Estimated cost to fund this growth is \$141 million.

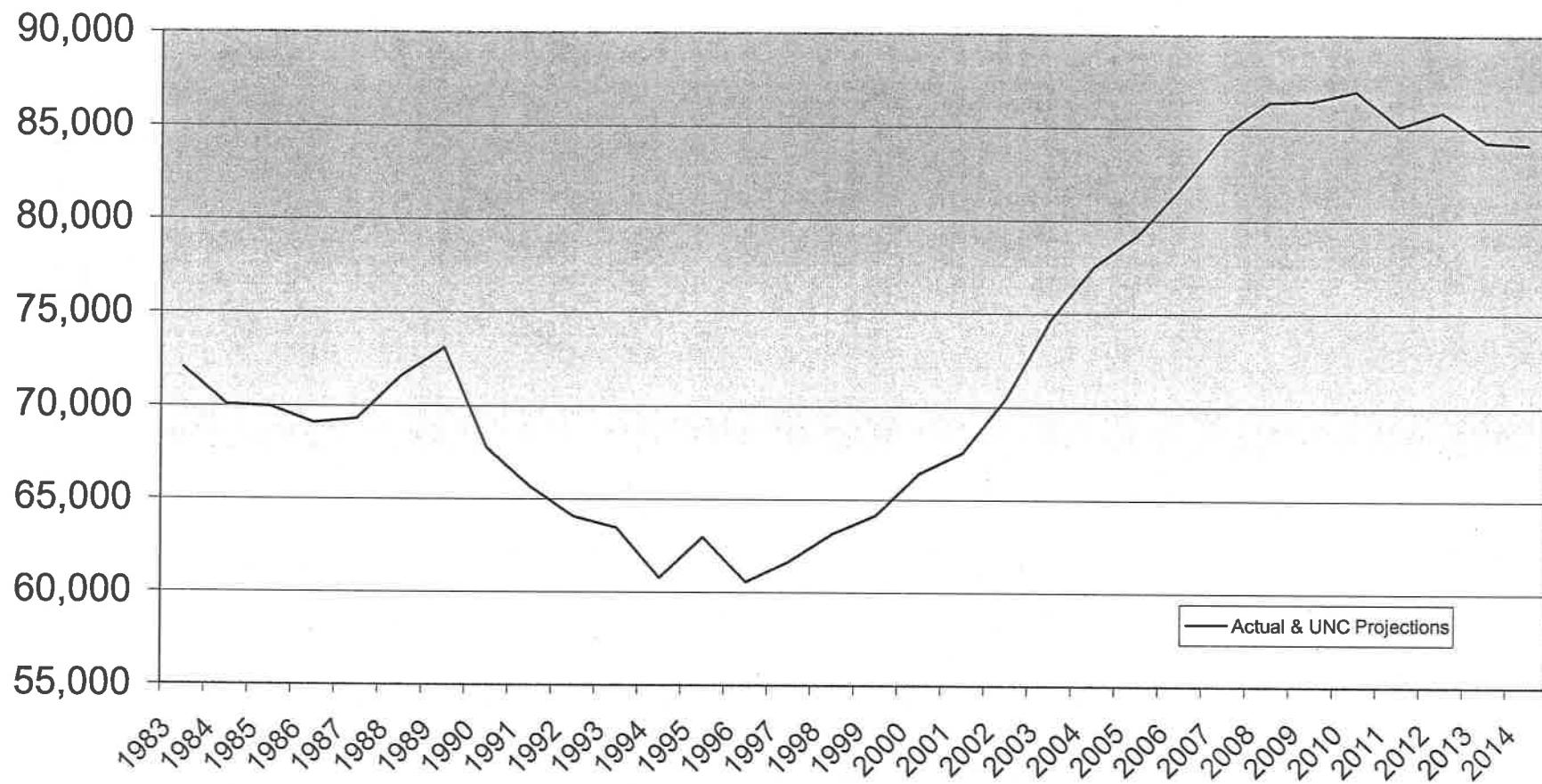
## Forward Funding

The NC Constitution requires that the State provide for a "general and uniform system of free public schools...wherein equal opportunities shall be provided for all students." This means the State must provide an opportunity for any NC child to receive a free public education. To ensure that resources are in place to provide this opportunity, the General Assembly funds projected public schools ADM in the annual continuation budget.

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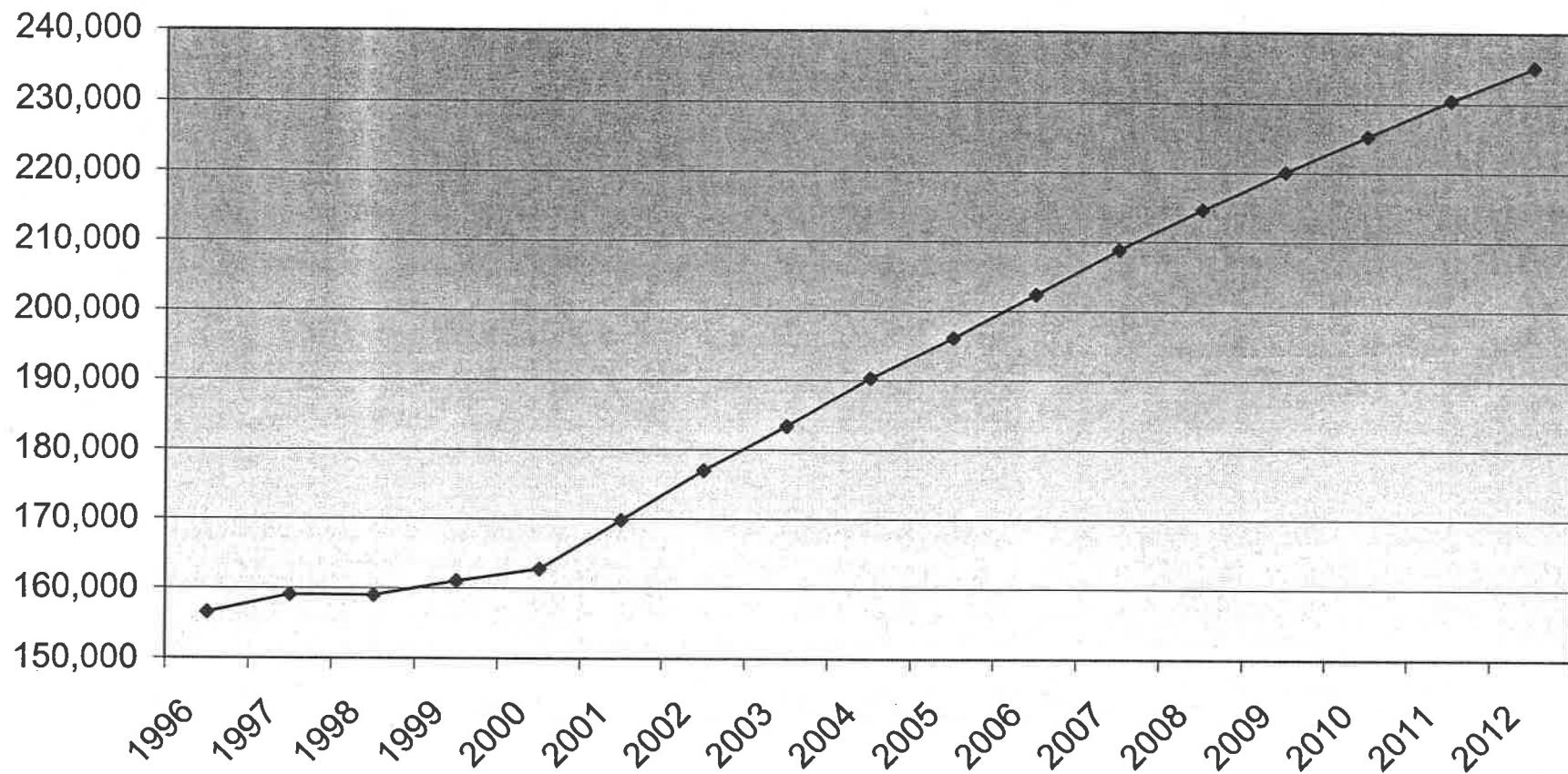
# NC HIGH SCHOOL GRADUATES

## 1983-2003 AND PROJECTED TO 2014



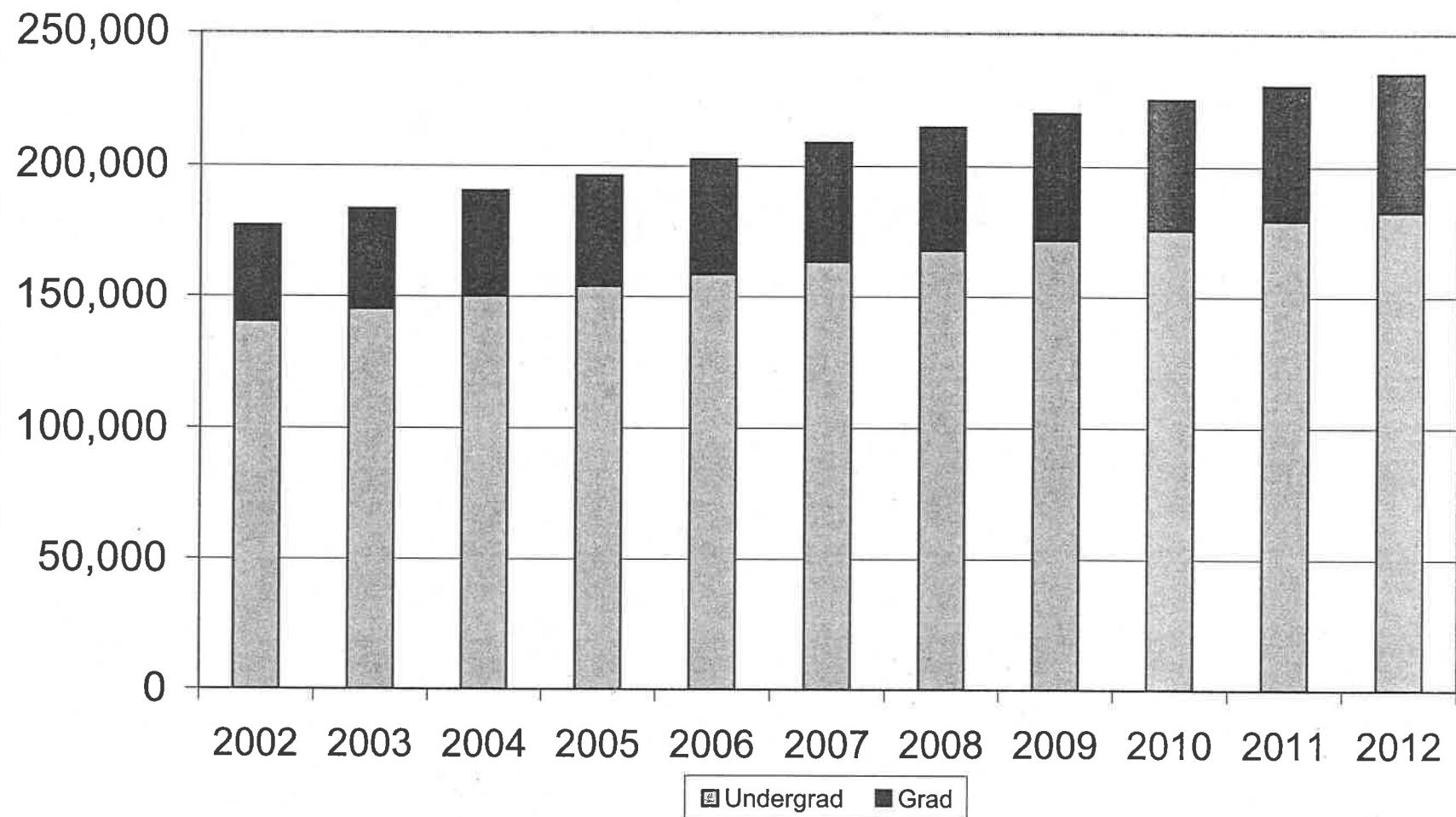
Source: UNC-General Administration, N.C. Public, Private, and Special High School Graduates by Race, 1978-2003 and Projected to 2014.

## **TOTAL UNC ENROLLMENT** **(Actual through 2004 and Projected to 2012)**



**Source:** UNC - Office of the President: Headcount numbers

## UNC ENROLLMENT PROJECTIONS



Source: UNC Office of the President: Headcount numbers

**University of North Carolina  
Proposed Enrollment Plan for 2002-2012**

Institution	Level	Actual Fall 2002	Actual Fall 2003	Enrollment Plan Fall 2003	Enrollment Plan Fall 2004	Enrollment Plan Fall 2005	Enrollment Plan Fall 2006	Enrollment Plan Fall 2007	Enrollment Plan Fall 2008	Enrollment Plan Fall 2009	Enrollment Plan Fall 2010	Enrollment Plan Fall 2011	Enrollment Plan Fall 2012
ASU	Undergrad	12,852	12,934	12,917	13,202	13,432	13,540	13,650	13,773	13,905	14,067	14,284	14,512
	Grad	1,326	1,409	1,413	1,393	1,598	1,658	1,732	1,810	1,895	1,992	2,101	2,219
	Total	14,178	14,343	14,330	14,595	15,030	15,198	15,382	15,583	15,800	16,059	16,385	16,731
ECU	Undergrad	16,225	16,935	16,856	17,347	17,654	18,042	18,472	18,931	19,405	19,884	20,372	20,869
	Grad	4,352	4,821	4,803	5,369	5494	5794	6097	6400	6702	7005	7309	7631
	Total	20,577	21,756	21,659	22,716	23,148	23,836	24,569	25,331	26,107	26,889	27,681	28,500
ECSU	Undergrad	2,133	2,282	2,249	2,385	2509	2641	2773	2915	3040	3171	3300	3432
	Grad	17	26	21	37	55	65	75	85	95	105	124	146
	Total	2,150	2,308	2,270	2,422	2,564	2,706	2,848	3,000	3,135	3,276	3,424	3,578
FSU	Undergrad	4,328	4,359	4,401	4,584	4,727	4,794	4,847	4,900	4,993	5,118	5,247	5,378
	Grad	980	970	992	1,119	1,047	1,052	1,072	1,103	1,133	1,155	1,168	1,225
	Total	5,308	5,329	5,393	5,703	5,774	5,846	5,919	6,003	6,126	6,273	6,415	6,603
NCA&T	Undergrad	7,982	8,715	8,486	9,433	9,738	10,363	10,910	11,430	11,898	12,396	12,852	13,254
	Grad	1,133	1,315	1,230	1,403	1,743	1,862	1,990	2,155	2,300	2,407	2,517	2,613
	Total	9,115	10,030	9,716	10,836	11,481	12,225	12,900	13,585	14,198	14,803	15,369	15,867
NCCU	Undergrad	4,762	5,362	4,917	5,441	5,580	5,853	6,139	6,432	6,689	6,975	7,236	7,493
	Grad	1,756	1,829	1,810	1,959	1,948	2,031	2,095	2,169	2,237	2,306	2,373	2,445
	Total	6,519	7,191	6,727	7,400	7,528	7,884	8,234	8,601	8,926	9,281	9,609	9,938
NCSA	Undergrad	738	712	695	735	742	749	763	774	785	793	790	787
	Grad	79	80	105	105	132	136	136	136	136	136	136	136
	Total	817	792	800	840	874	885	899	910	921	929	926	923
NCSU	Undergrad	22,779	22,971	22,799	23,380	23,393	23,688	24,006	24,369	24,788	25,269	25,857	26,637
	Grad	6,858	6,883	7,309	7,283	7,693	7,964	8,243	8,534	8,839	9,157	9,492	9,863
	Total	29,637	29,854	30,108	30,663	31,086	31,652	32,249	32,903	33,627	34,426	35,349	36,500
UNCA	Undergrad	3,351	3,410	3,493	3,617	3,608	3,675	3,675	3,675	3,675	3,675	3,675	3,675
	Grad	40	36	42	42	42	42	42	42	42	42	42	42
	Total	3,391	3,446	3,535	3,659	3,650	3,717	3,717	3,717	3,717	3,717	3,717	3,717
UNC-CH	Undergrad	15,961	16,144	16,104	16,333	16,438	16,721	17,080	17,393	17,630	17,794	17,863	17,874
	Grad	10,067	10,215	10,457	10,361	10,438	10,609	10,788	10,846	10,957	10,958	11,021	10,997
	Total	26,028	26,359	26,561	26,694	26,876	27,330	27,868	28,239	28,587	28,752	28,884	28,871
UNCC	Undergrad	15,364	15,694	15,808	16,255	17,379	18,188	19,117	20,028	20,896	21,764	22,534	23,126
	Grad	3,552	3,911	3,711	3,940	4,077	4,236	4,387	4,545	4,713	4,899	5,092	5,304
	Total	18,916	19,605	19,519	20,195	21,456	22,424	23,504	24,573	25,609	26,663	27,626	28,430

**University of North Carolina  
Proposed Enrollment Plan for 2002-2012**

Institution	Level	Actual Fall 2002	Actual Fall 2003	Enrollment Plan Fall 2003	Enrollment Plan Fall 2004	Enrollment Plan Fall 2005	Enrollment Plan Fall 2006	Enrollment Plan Fall 2007	Enrollment Plan Fall 2008	Enrollment Plan Fall 2009	Enrollment Plan Fall 2010	Enrollment Plan Fall 2011	Enrollment Plan Fall 2012
UNCG	Undergrad	10,892	11,242	11,099	11,472	11,817	12,361	12,879	13,222	13,543	13,716	13,758	13,691
	Grad	3,561	3,628	3,694	3,700	4,087	4,275	4,488	4,577	4,739	4,823	4,919	4,992
	Total	14,453	14,870	14,793	15,172	15,904	16,636	17,367	17,799	18,282	18,539	18,677	18,683
UNCP	Undergrad	3,951	4,253	4,392	4,613	5,188	5,498	5,826	6,146	6,146	6,146	6,146	6,146
	Grad	481	469	528	542	589	600	620	640	640	640	640	640
	Total	4,432	4,722	4,920	5,155	5,777	6,098	6,446	6,786	6,786	6,786	6,786	6,786
UNCW	Undergrad	9,952	10,124	10,151	10,422	10,589	10,799	11,018	11,220	11,387	11,544	11,786	11,992
	Grad	966	955	1,007	1,073	1,184	1,257	1,330	1,402	1,473	1,545	1,604	1,649
	Total	10,918	11,079	11,158	11,495	11,773	12,056	12,348	12,622	12,860	13,089	13,390	13,641
WCU	Undergrad	5,665	6,087	5,861	6,673	6,935	7,235	7,535	7,680	7,808	7,928	8,048	8,168
	Grad	1,368	1,474	1,465	1,587	1,725	1,825	1,925	1,930	1,952	1,982	2,012	2,042
	Total	7,033	7,561	7,326	8,260	8,660	9,060	9,460	9,610	9,760	9,910	10,060	10,210
WSSU	Undergrad	3,396	3,929	3,661	4,221	4,257	4,469	4,701	4,893	5,114	5,349	5,573	5,618
	Grad	99	173	191	248	285	360	420	498	533	553	568	584
	Total	3,495	4,102	3,852	4,469	4,542	4,829	5,121	5,391	5,647	5,902	6,141	6,202
Total	Undergrad	140,331	145,153	143,889	150,113	153,986	158,616	163,391	167,781	171,702	175,589	179,321	182,652
	Grad	36,635	38,194	38,778	40,161	42,137	43,766	45,440	46,872	48,386	49,705	51,118	52,528
	Total	176,967	183,347	182,667	190,274	196,123	202,382	208,831	214,653	220,088	225,294	230,439	235,180

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# Community College Enrollment

FY 03-04

192,693 FTE

779,229 Headcount

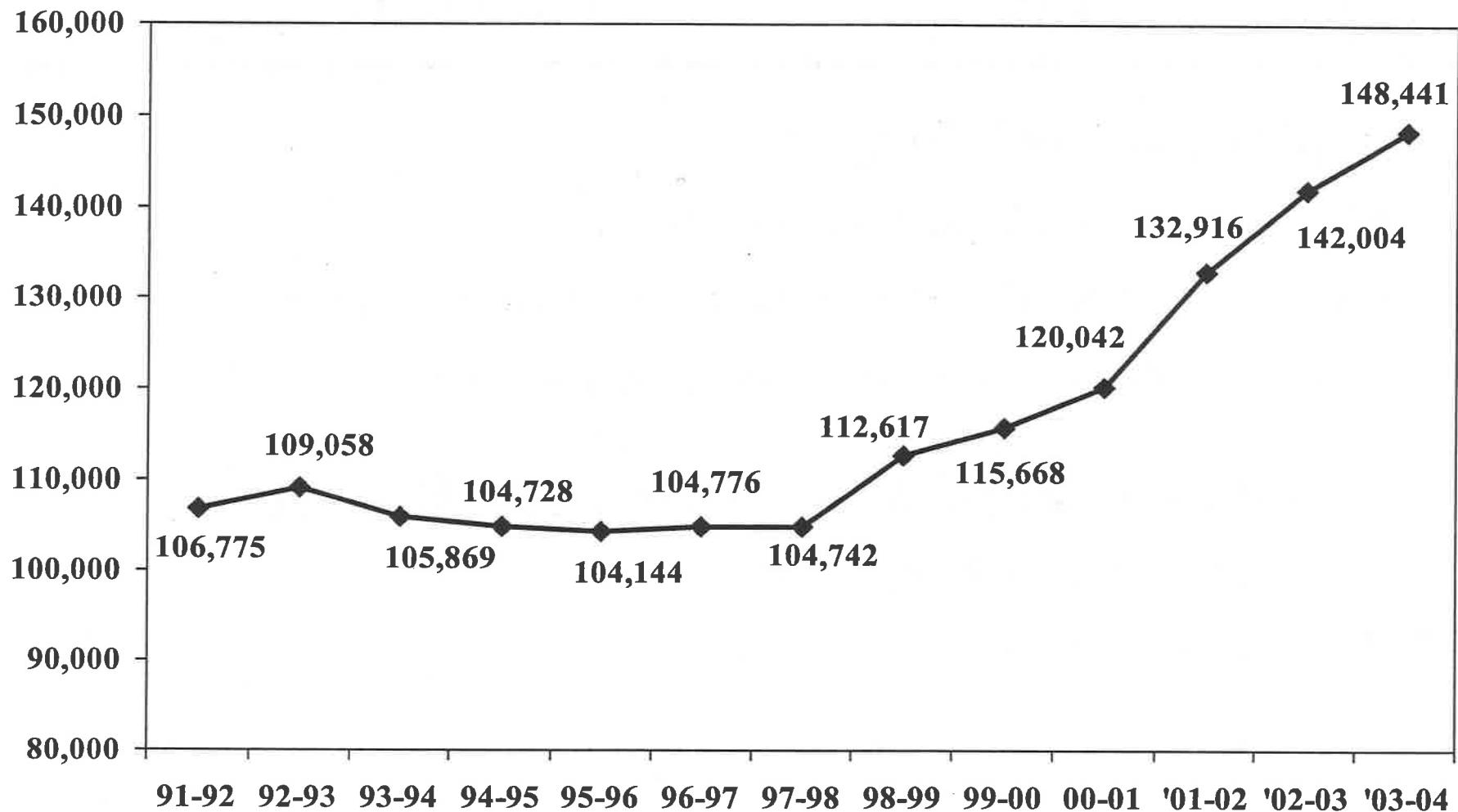
## Current Enrollment Formula

- Current policy was implemented in 2000
- Based on the prior year or the average of the three previous years
- Allows for stability in periods of declining enrollments

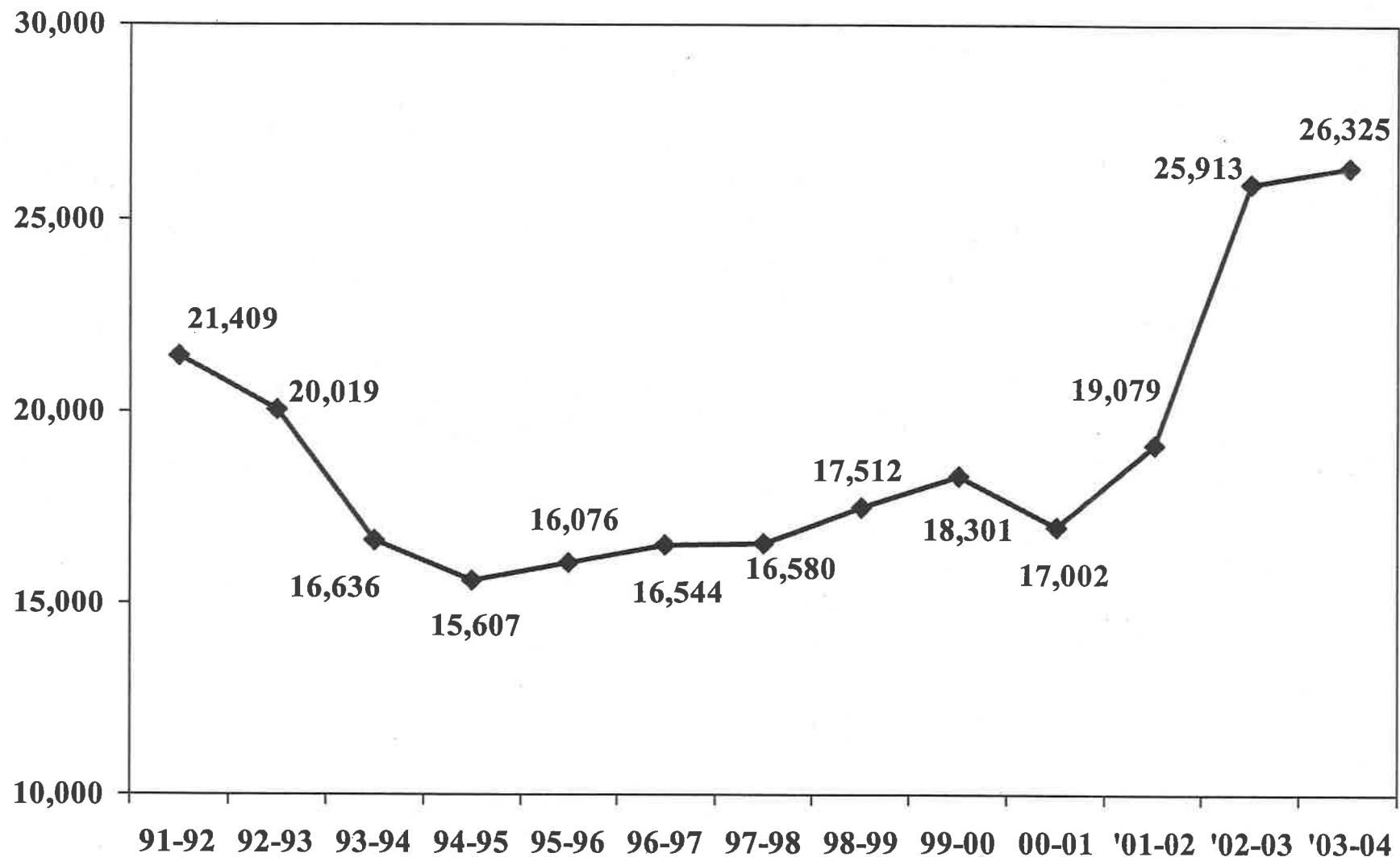
## 2004 General Assembly Actions Regarding Enrollment

- Contingency Reserve Pilot Program
- Funding Study

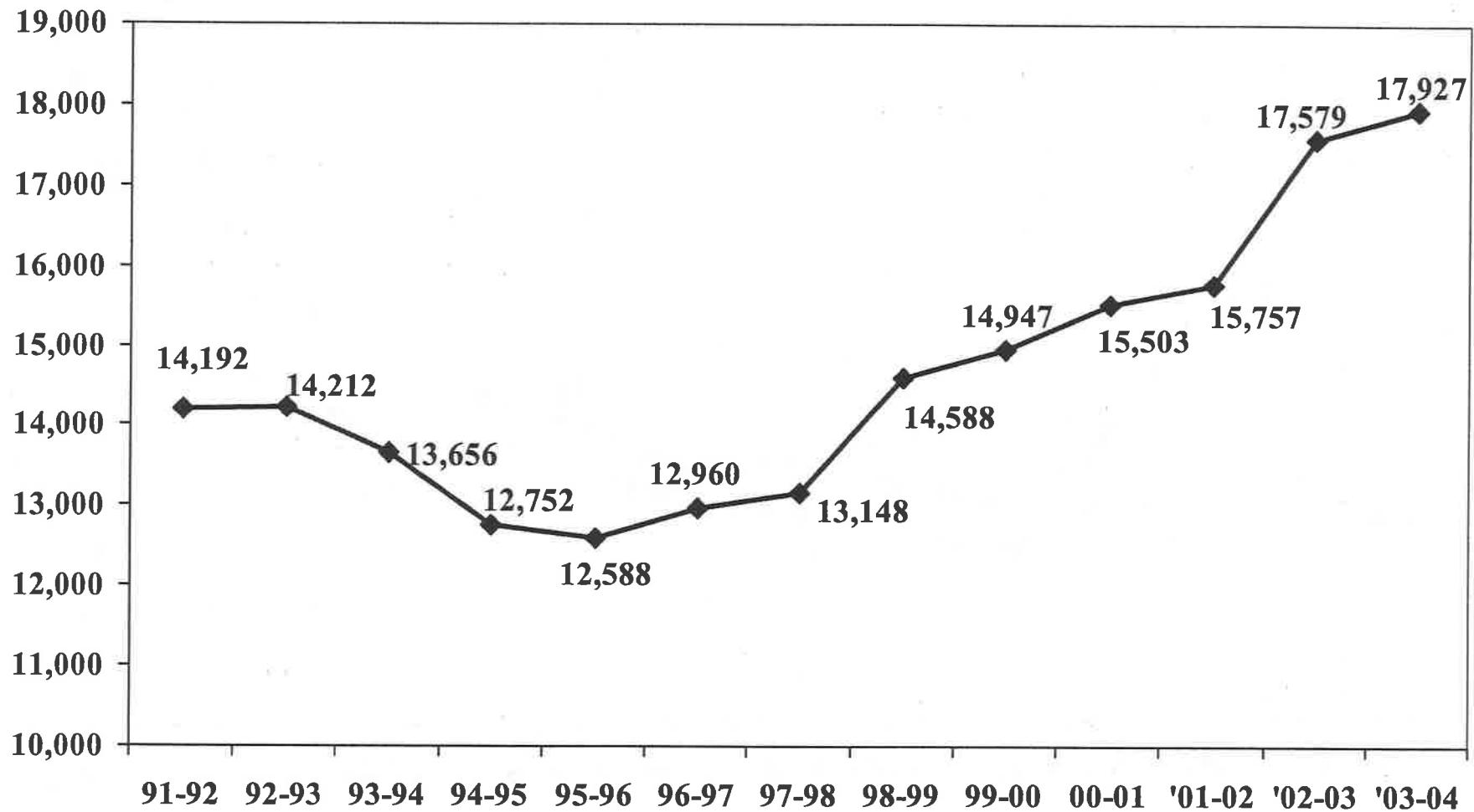
# Curriculum Actual FTE Since 1991



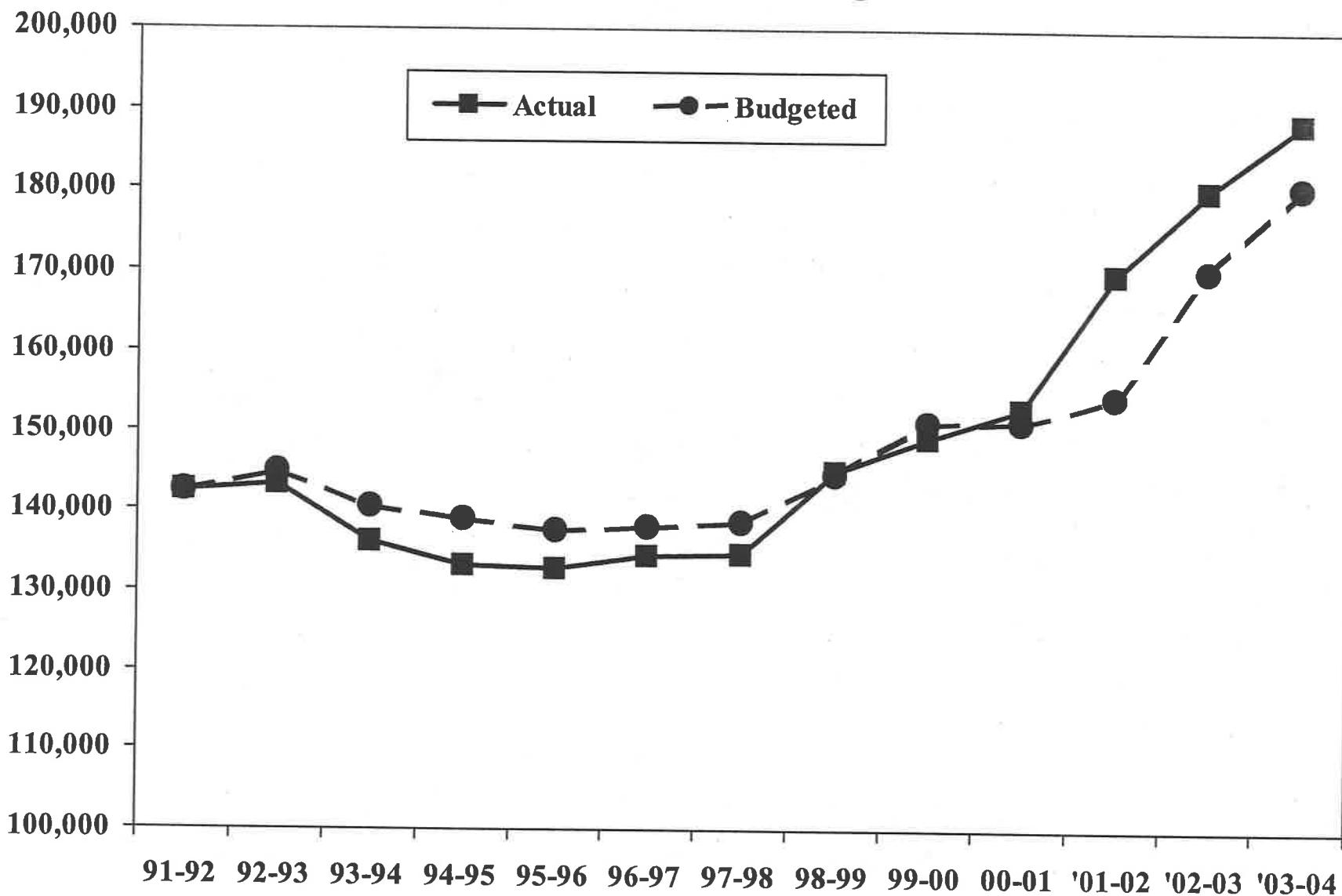
# Occupational Continuing Education FTE Since 1991



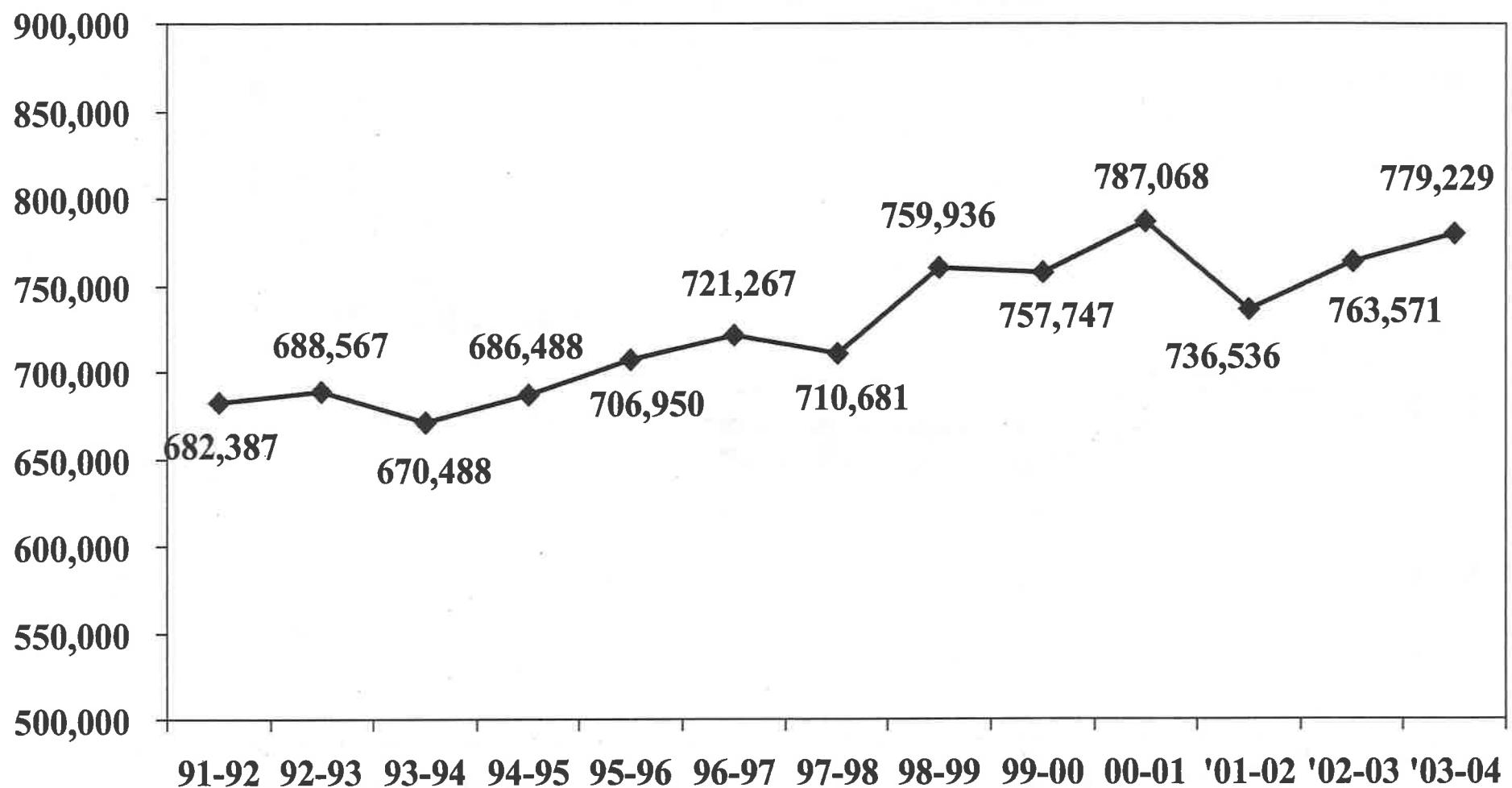
# Basic Skills FTE Since 1991



# Actual FTE v. Budgeted FTE



# Unduplicated Headcount Since 1991



## Enrollment Growth Projections for 2005-06

All FTE Reflect the Higher of  
Current Yr or Average of the Past 3 Years

	Allotted FTE 2004-05	Projected FTE 2005-06	Growth	% Increase	Appropriation Required	Total Requirements	Estimated Receipts
Curriculum	148,581	154,821	6,240	4.20%	\$19,090,479	\$25,511,314	\$6,420,835
Continuing Education	21,750	22,555	805	3.70%	\$2,326,137	\$2,879,092	\$552,955
Basic Skills	18,279	18,663	384	2.10%	\$1,775,827	\$1,775,827	\$0
<b>TOTAL</b>	<b>188,610</b>	<b>196,039</b>	<b>7,429</b>	<b>3.94%</b>	<b>\$23,192,443</b>	<b>\$30,166,233</b>	<b>\$6,973,790</b>

Assumption: Used .5% less growth for all three program areas than was actually budgeted for FY 2004-05

Source: Ncces  
8:28 AM 9/14/2004



## Enrollment Growth Projections for 2005-06

All FTE Reflect the Higher of Current Yr or Average of the Past 3 Years	Allotted FTE 2004-05	Projected FTE 2005-06	Growth	% Increase	Appropriation Required	Total Requirements	Estimated Receipts
Curriculum	148,581	150,432	1,851	1.25%	\$5,662,897	\$7,567,539	\$1,904,642
Continuing Education	21,750	22,173	423	1.94%	\$1,222,306	\$1,512,864	\$290,558
Basic Skills	18,279	18,498	219	1.20%	\$1,012,776	\$1,012,776	\$0
TOTAL	188,610	191,103	2,493	1.32%	<b>\$7,897,979</b>	<b>\$10,093,179</b>	<b>\$2,195,200</b>

Enrollment Projections based upon the Fall 2004 Census data



### Community College Estimated FY 04-05 Enrollment Changes

	Curriculum Growth	Curriculum %	Con Ed Growth	Con Ed %	Basic Skills Growth	Basic Skills %	Total Change
Wake TCC	492	6.44%	57	4.79%	25	2.65%	574
Rowan-Cabarrus CC	307	7.97%	54	8.93%	195	58.73%	556
Guilford TCC	261	4.04%	79	17.10%	39	5.44%	379
Central Piedmont CC	220	2.21%	14	1.61%	19	2.06%	253
Davidson County CC	235	9.78%	-18	-3.73%	12	2.86%	229
Asheville-Buncombe TCC	186	4.36%	37	6.25%	-3	-0.85%	220
Piedmont CC	148	8.07%	26	12.09%	-9	-7.09%	165
Pitt CC	163	3.50%	-1	-0.43%	-2	-0.69%	160
Cape Fear CC	156	2.88%	-11	-1.69%	6	1.63%	151
Wilson TCC	31	1.93%	39	11.75%	40	21.62%	110
Alamance CC	106	3.47%	-23	-9.24%	18	6.50%	101
Isothermal CC	81	4.76%	18	9.89%	2	1.31%	101
Durham TCC	11	0.32%	77	16.85%	-12	-2.58%	76
Sampson CC	14	1.27%	64	32.82%	-3	-0.85%	75
Martin CC	95	12.98%	-18	-12.95%	-5	-2.55%	72
Southwestern CC	75	4.89%	2	0.52%	-14	-7.57%	63
Vance-Granville CC	74	2.23%	10	1.57%	-22	-6.06%	62
Catawba Valley CC	-25	-0.67%	9	2.43%	74	27.01%	58
Carteret CC	21	1.54%	30	15.23%	-7	-4.96%	44
Caldwell CC & TI	29	1.00%	-8	-2.27%	20	7.52%	41
Cleveland CC	93	4.37%	-49	-18.08%	-6	-3.49%	38
Nash CC	5	0.29%	7	1.83%	18	8.14%	30
Craven CC	23	1.11%	-17	-5.36%	23	11.86%	29
Wayne CC	47	1.87%	-29	-5.49%	10	2.56%	28
Beaufort County CC	8	0.60%	27	15.34%	-10	-3.82%	25
Robeson CC	15	0.79%	13	2.58%	-6	-0.59%	22
South Piedmont CC	11	0.83%	-4	-1.34%	10	3.89%	17
Edgecombe CC	-3	-0.16%	34	15.32%	-17	-4.91%	14
Stanly CC	3	0.18%	1	0.25%	7	5.04%	11
Pamlico CC	21	6.95%	-4	-4.60%	-7	-6.54%	10
Gaston College	-10	-0.27%	36	11.46%	-19	-7.22%	7
Lenoir CC	-1	-0.05%	22	4.90%	-18	-4.08%	3
Roanoke-Chowan CC	9	1.14%	-4	-5.33%	-3	-3.16%	2
McDowell TCC	-9	-0.89%	11	8.87%	-1	-0.70%	1
Halifax CC	13	0.89%	7	4.70%	-21	-14.69%	-1
James Sprunt CC	-5	-0.42%	0	0.00%	3	3.09%	-2
Mitchell CC	-1	-0.06%	-10	-3.24%	9	6.25%	-2
Brunswick CC	-33	-3.79%	26	13.90%	1	0.46%	-6
Rockingham CC	2	0.12%	-6	-1.68%	-2	-1.69%	-6
Mayland CC	11	1.06%	-21	-8.20%	0	0.00%	-10
Western Piedmont CC	1	0.05%	-2	-0.66%	-15	-3.39%	-16
Bladen CC	-13	-1.09%	0	0.00%	-7	-9.59%	-20
Johnston CC	-37	-1.25%	-2	-0.76%	14	4.50%	-25
Randolph CC	-43	-2.51%	18	4.23%	-3	-0.98%	-28



	Curriculum Growth	Curriculum %	Con Ed Growth	Con Ed %	Basic Skills Growth	Basic Skills %	Total Change
Coastal Carolina CC	-65	-2.01%	38	5.97%	-6	-2.39%	-33
Forsyth TCC	-36	-0.72%	6	0.88%	-5	-0.97%	-35
College of The Albemarle	-30	-1.79%	-8	-3.24%	0	0.00%	-38
Southeastern CC	20	1.11%	-43	-13.11%	-16	-5.76%	-39
Haywood CC	-30	-1.95%	-11	-6.11%	-3	-3.33%	-44
Montgomery CC	-37	-5.29%	-9	-8.18%	-6	-8.96%	-52
Blue Ridge CC	-63	-3.81%	9	1.94%	-8	-4.40%	-62
Tri-County CC	-38	-3.98%	-27	-11.79%	2	5.13%	-63
Wilkes CC	-105	-4.64%	30	6.48%	3	1.14%	-72
Surry CC	-72	-2.70%	5	1.12%	-11	-6.43%	-78
Richmond CC	-32	-2.31%	-16	-7.92%	-42	-9.66%	-90
Central Carolina CC	-70	-1.92%	-54	-8.65%	23	2.75%	-101
Sandhills CC	-120	-3.80%	13	4.35%	-5	-1.53%	-112
Fayetteville TCC	-173	-2.31%	-1	-0.08%	-40	-3.56%	-214





# PUBLIC SCHOOLS OF NORTH CAROLINA

STATE BOARD OF EDUCATION :: Howard N. Lee, *Chairman*

WWW.NCPUBLICSCHOOLS.ORG

DEPARTMENT OF PUBLIC INSTRUCTION :: Patricia N. Willoughby, *State Superintendent*

October 25, 2004

The Honorable Howard Manning, Jr.  
Superior Court Judge  
Wake County Courthouse  
Post Office Box 351  
Raleigh, North Carolina 27602-0351

Dear Judge Manning:

The State of North Carolina is committed to ensuring that all children receive an education that prepares them for the future. Our priority is to make sure that every child, in every community, has access to a quality education with competent teachers, effective principals, and enough resources to provide individual instruction.

To that end, it has been a priority of the state to ensure that children begin school ready to learn, that they enter a school that has class sizes low enough to provide individual attention, are taught by qualified teachers, and are expected to meet high standards of excellence. In the last few years, the state has made major gains in each of these areas. However, there is more that can be done to ensure that all students, and in particular, at-risk students, are afforded the educational resources and opportunities for a sound basic education.

Over the last few weeks and months the State Board of Education and the Department of Public Instruction have been engaged in a series of discussions about the development of a long-range plan based on the progress of the Disadvantaged Student Supplemental Fund pilots in sixteen counties. With the Governor's charge and collaboration, we have developed the attached action plan to enhance the educational opportunities in North Carolina schools. The ideas in this plan are grounded in research and are the result of our experiences and the input and experiences of teachers, superintendents, parents, and other interested parties. We have also outlined additional steps that we will take over the next several months to solicit more contributions from parties to improve and refine the plan.

Sincerely,

Howard N. Lee

Patricia N. Willoughby

OFFICE OF THE STATE SUPERINTENDENT

6301 Mail Service Center :: Raleigh, North Carolina 27699-6301 :: 919.807.3430 :: Fax 919.807.3445

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## EXECUTIVE SUMMARY

The State of North Carolina is committed to ensuring that all children receive the opportunity to obtain an education that prepares them for further education beyond high school, skilled jobs and careers in a changing workforce, and the responsibilities of citizenship in a democratic society. Furthermore, the State is committed to ensuring that all children have (1) a competent teacher, (2) an effective principal, and (3) adequate resources to meet high academic standards.

The State has demonstrated a commitment to target resources to meet the needs of at-risk students. Among other programs, the Governor, the State Board of Education and the General Assembly have recently created and funded the following:

- The More at Four Pre-kindergarten Program for at-risk four-year-olds
- A K-3 class size reduction initiative
- The High Priority Schools Act
- The Local Education Agency Assistance Program to provide assistance to poorly performing districts
- The New Schools Project to reform high schools

Most recently, the Governor identified \$22 million for use by the State Board of Education to implement the Disadvantaged Students Supplemental Fund (DSSF). The DSSF Program provides targeted resources to assist at-risk students in 16 school districts marked by low student performance, low teacher experience, high poverty, and high teacher turnover.

The State remains committed to these important efforts. Nevertheless, State education leaders understand that more remains to be done to improve the achievement of at-risk students and ensure that every student has the opportunity to obtain a high quality education. Towards that end, the State is committed to 1) expanding and enhancing existing initiatives and 2) developing select new initiatives targeted to meet the needs of at-risk students.

Consistent with that commitment, the State intends to construct, prior to the start of the 2005 Legislative session, a detailed plan. The State recognizes that legislative appropriations will be needed to implement elements of this plan. The plan includes the following components:

### EXPAND EXISTING PROVEN PROGRAMS

- **Ensure every at-risk four-year-old has access to a quality prekindergarten program.** The State intends to continue to expand the More at Four program until at least 40,000 at-risk four-year-olds are assured access to quality pre-kindergarten programs. Expansion will be targeted first to students in school districts with the greatest needs.
- **Evaluate, Refine and Expand the Disadvantaged Students Supplemental Fund to ensure schools and districts implement proven strategies.** Based on an evaluation of the pilot DSSF Programs in the 16 initial pilots, the State will modify and expand this approach. Because it is clear that the current pilot is only the first step in reaching at-risk children, additional investments for the next school year and beyond are needed. The State will closely monitor and evaluate the pilot to measure the effectiveness of this approach and the specific options available to districts and make modifications as appropriate.

- **Strengthen and Expand LEAAP into a new unit under the State Board to improve struggling school districts.** Building on its pilot experience with the Local Education Agency Assistance Program, the State intends to create a full-time unit under the State Board of Education that works with a set of especially needy school districts. This unit will undertake thorough diagnostic analyses of the challenges facing districts and schools and provide intensive support on resource reallocation and policy decision-making with the objective of building local capacity in the districts.
- **Continue the Teacher Working Conditions Survey and provide actionable data for problem schools and districts.** Improved teacher retention and effectiveness are essential to improving educational opportunities for all students. The Teacher Working Conditions Survey has been demonstrated to provide important actionable data to schools and districts to predict teacher turnover and student achievement. The State intends to use the Survey intensively in targeted schools and districts to help districts to attract and retain teachers and principals and increase their effectiveness.
- **Expand the New Schools Project and Learn and Earn.** To improve the preparation of high school students to access further education and compete for skilled jobs, the State intends to expand its development of new schools, schools-within-schools, and Learn and Earn schools to provide access to students in every county. These innovative models will be the cornerstone of the State's approach to lower dropout rates, boost graduation rates, and increase college-going rates.

## INVEST IN NEW COMMITMENTS

- **Expand teacher supply for hard-to-staff schools.** The State believes that it is important to boost the supply of qualified teachers in the areas where they are needed most. Increasing partnerships between community colleges and public and private schools of education is an important tool for achieving that objective. Therefore, the State foresees expanding “2+2” partnerships between schools of education at four-year institutions and community colleges located in proximity to hard-to-staff-schools throughout the State. The State is also committed to exploring additional avenues for increasing the supply of qualified teacher candidates for hard-to-staff-schools.
- **Provide high quality professional development for teachers and principals.** The State will develop a comprehensive portfolio of professional development offerings in core areas for principals and teachers to ensure access to high quality professional development in key content areas and skills to improve the achievement of at-risk students. Analyses of student performance data, Teacher Working Conditions data, and the State's work in low-performing schools and districts will be used to determine specific topics.
- **Connect school, social service and delinquency prevention resources.** The State will bring together the agencies responsible for school, social service, and juvenile justice resources to develop strategies for high need schools and counties. Working together and with local governments, these State agencies can coordinate parent support, mental health services, health services, and delinquency prevention and other juvenile justice-related services to support children's health and school performance, and help parents to be actively involved in their children's education.

## PLAN FOR IMMEDIATE ACTION

The State is committed to immediate action to develop these initiatives and implement them to improve the educational opportunities available to at-risk students. The State holds that the future growth and prosperity of North Carolina depends upon today's students receiving an education that prepares them for higher education, skilled jobs and careers, and a life of democratic participation.

To that end, the State intends to take a budget and policy package including these programs to the 2005 session of the General Assembly.

Over the course of the last few weeks and months, the Office of the Governor, the State Board of Education and the Department of Public Instruction have been engaged in a series of discussions about the development of a long-range plan to meet the needs of at-risk students. In the coming months before the 2005 Legislative session, the State will develop the detailed plans needed to carry out the commitments it has described. The Office of the Governor and State Board of Education will work with the General Assembly and with education leaders and other interested parties in crafting the details of these plans.

The following steps will take place in the coming weeks and months in anticipation of taking a detailed package to the General Assembly for the 2005 session:

### **October 26, 2004 – January 26, 2005**

- **November 5.** The Office of the Governor, Department of Public Instruction (DPI) and State Board of Education (SBE) representatives will hold initial meeting with Amicus groups and teacher groups.
- **November 19.** The Office of the Governor, DPI and SBE representatives will reconvene a group of superintendents and other representatives, including individuals from plaintiff and plaintiff-intervenor districts.
- **November 30.** The Governor will convene the Education Cabinet to meet and take up relevant items from this plan. The Education Cabinet will determine those items needing action by education governing boards.
- **December 1-2.** The State Board of Education will evaluate and approve plans for the five remaining districts under the Disadvantaged Students Supplemental Fund at its monthly meeting in December.
- Representatives from the Governor's Office, DPI, SBE, the Legislature, the Education Cabinet, K-12 school leaders, and other key stakeholders will continue meetings to construct the details of the plan.
- The Office of the Governor, DPI, and SBE will work with legislative representatives on development of a legislative package for the 2005 session of the General Assembly, which opens on Wednesday, January 26, 2005.

Beyond the 2005 Legislative session, the State is committed to continuing the development and implementation of proven strategies for meeting the needs of at-risk students.

## BACKGROUND

Over the past two decades, the State has put into place a series of policies that have helped North Carolina make especially significant progress in the academic achievement of its young people.

In the late 1980s, the state began a focus on testing and accountability with the introduction of statewide curriculum standards, testing and public accountability. In the 1990s, the State refined its accountability system and placed a major emphasis on teacher quality. In the mid-nineties, the State implemented the ABCs of Public Education and school level testing and accountability. The testing and accountability system helped to focus attention and resources on the needs of students and schools throughout the state, especially those students not performing at or above grade level on state assessments. In addition to providing information on the achievement of schools and students, the ABCs program also assigned assistance teams to low-performing schools and instituted Gateways in grades three, five and eight to stem social promotion. The ABCs Program has allowed the state to understand which students and which schools are most in need of additional assistance and support.

Also in the 1990s, the State made significant investments in its teaching workforce, including raising teacher pay to near the national average and in the top half of the nation—where it remains today. The Excellent Schools Act of 1997 raised teacher pay, increased teacher standards, created accountability measures for schools of education, and improved the support of new teachers in the profession.

Improvement on national assessments, including the National Assessment of Educational Progress in reading, writing and mathematics and the SAT, demonstrates that North Carolina's approach is yielding results. In addition, reports from the RAND Corporation and the National Education Goals Panel and, most recently, from the Education Trust in October 2004, found that the steps that the state had been taking were increasing achievement scores and reducing achievement gaps on national assessments in reading and math.

The 2000 RAND report, *Improving Student Achievement: What NAEP Test Scores Tell Us* laid out a clear path for moving forward to improve achievement, especially among its at-risk students. The RAND report found that the most cost-effective approach to improving reading and math achievement on the National Assessment of Educational Progress was to lower teacher-student ratios in the early grades, expand public Prekindergarten, and provide additional resources to teachers. The report found that “investing in better working conditions for teachers to make them more productive (lower pupil-teacher ratios, more discretionary resources, and improved readiness for school from Prekindergarten) could produce significant gains in achievement scores” (pp. xxvii-xxviii).

In accordance with that report and other significant education research, Governor Mike Easley, the State Board of Education and the Legislature have worked together to ground the state's school improvement efforts in a research-backed approach for raising achievement of all students, with a particular focus on improving achievement for at-risk students. The State has focused on pre-kindergarten programs, smaller classes in the early grades, and supporting the needs of teachers.

Beginning in 2001, the State began to put these research-backed policies into place:

- **The More at Four Prekindergarten Program** was implemented in 2001 and served 1,500 at-risk four-year-olds in 34 counties. In 2004, it is reaching 12,000 at-risk four-

year-olds in all 100 counties. Research has documented that bringing students to school ready to learn increases academic achievement and educational attainment over time.

- **K-3 Class Size Reduction** reduced the teacher-student ratio to 1:18 in grades K-3 between 2001 and 2004, funding the reductions one grade level at a time over the past four years. Research shows that smaller classes in grades K-3 leads to increased student achievement, decreased behavioral problems, and increased high school graduation rates. Smaller classes are a particularly powerful strategy for raising the achievement of at-risk students. Class size reduction has also been shown to be an important tool in attracting and retaining teachers in the early grades.
- **The High Priority Schools** initiative reduced class size to 15 in the 36 highest-poverty and lowest-performing elementary schools in grades K-3 and added five additional days for teacher professional development and five additional days for students.

The State also implemented a number of other important initiatives since 2001 to improve educational opportunities and achievement across the state:

- **The Local Educational Agency Assistance Program**, which provided school district-level assistance teams to work with low-performing districts. The teams work with the school district to review data, resource allocation, strategies, and challenges. The first effort began in Hoke County and has expanded to additional school districts.
- **The Teacher Working Conditions Initiative**, which launched in 2002 a statewide survey of teachers and administrators on working conditions in the schools. The survey was repeated in 2004. In 2004, the survey generated detailed reports on teacher working conditions for 90% of all schools and each of the 115 school districts. Research has been completed recently on this data which shows that the working conditions data is predictive of teacher turnover and student performance outcomes, making this data extremely valuable as a tool for improvement at schools.
- **The New Schools Project to reform high school**. Supported initially by an \$11 million grant from the Bill and Melinda Gates Foundation, the New Schools Project is focused on improving high schools in order to dramatically improve the dropout, high school graduation, and college-going rates in North Carolina. Based on research that shows that smaller schools lead to higher graduation rates and better preparation for college and jobs, the initiative is focused on creating smaller high schools with deeper connections to higher education and workplace skills. The project focuses on students whom traditional high schools are not serving well.

The Project has begun by investing in the creation of 8 health science-themed smaller schools and schools-within-schools, and 15 Learn and Earn high schools where students graduate from high school and earn both a high school diploma and an associate's degree or two years of university credit. Learn and Earn high schools are done in conjunction with local community colleges and four-year institutions. The next phase of the New Schools Project is the implementation of proven small school models in districts in northeastern North Carolina.

In addition to the \$11 million granted by the Gates Foundation, the state is investing \$2.2 million on a recurring basis to begin the Learn and Earn high schools.

These investments and approaches represent research-backed practices to improve teacher retention and effectiveness and boost student achievement. The State believes they represent an important set of building blocks for addressing the needs of at-risk students. Nevertheless, the State believes that more must be done for at-risk students in North Carolina.

## **ADDITIONAL FUNDING TARGETED TO MEET THE NEEDS OF AT-RISK STUDENTS**

In July of this past year, the State began its most recent effort to address the needs of at-risk students with the creation of the Disadvantaged Students Supplemental Fund (DSSF) pilot program. The DSSF pilot is now working in select districts to allocate additional resources for proven strategies to boost the achievement of at-risk students. Governor Easley has identified and made available up to \$22 million for use by the State Board of Education to support 16 school districts. The pilot is operating as follows:

- Districts were identified based on levels of student achievement, student poverty, and teacher attrition. Based on a formula, specific funding levels were set for each district.
- The State Board assigned assistance teams to each district to help in the creation of their plans for using the DSSF resources.
- Plans from local districts are based on a “menu of proven strategies” developed by the State Board of Education. Districts have the flexibility to decide which options best meet their needs, but they must use the options provided by the State Board. The options include bonuses for recruiting and retaining teachers; additional personnel for such strategies as reducing class size, hiring reading coaches, and supporting new teachers; professional development for teachers and principals; supporting afterschool and other extended day programs; and implementing personal education plans.
- Funding for districts is contingent upon the approval of the State Board of Education.
- The Board will evaluate the results from the DSSF pilot, including the effectiveness of additional resources, the targeted options, and the DPI assistance on improving student achievement and teacher retention.

## **MOVING FORWARD: BUILDING ON THE STATE’S COMMITMENT TO ADDRESS THE NEEDS OF AT-RISK STUDENTS**

The aforementioned strategies for improving student achievement—especially the achievement for students below grade level—are yielding results. The State intends for these strategies to serve as the foundation of its continuing effort to construct a system of K-12 public education that provides superior education for all students and, more specifically, meets the needs of at-risk students.

In order to ensure that all students are receiving a high quality education and that they have access to caring, competent teachers in their classrooms, effective principals in their schools, and the instruction they need to meet high standards, the State is committed to taking the following steps to maintain and expand proven strategies for school improvement. Additionally, it is

recognized that the Legislature will need to appropriate additional resources to allow the State to expand a number of these proven strategies for increasing the achievement of at-risk students.

- 1. Ensure that every at-risk four-year-old has access to a quality prekindergarten program.**

Recognizing that students who do not start school ready to learn remain at-risk of school failure and dropping out throughout their career, the State intends to expand the More at Four Prekindergarten Program for at-risk four-year-olds towards its goal of access for the estimated 40,000 at-risk four-year-olds in the state. Quality pre-kindergarten programs are the fundamental building block for the State's effort to meet the needs of at-risk students across the state. Without access to quality prekindergarten programs, at-risk students start school behind and remain at-risk of school failure throughout their school careers.

In expanding More at Four, the State will identify high-need areas with respect to educational performance, families in poverty, and other key indicators to determine priority sites for funding expansion.

- 2. Evaluate, refine and expand the Disadvantaged Students Supplemental Fund pilot approach to ensure that districts and schools implement proven strategies for meeting the needs of at-risk students**

The Governor and State Board of Education have implemented the Disadvantaged Students Supplemental Fund in 16 school districts for the 2004-05 school year. The pilot requires that assistance teams, assembled by the Department of Public Instruction, work with eligible districts to determine plans for using additional resources based on a menu of proven strategies. The Governor, State Board and General Assembly will carefully analyze the success of the different strategies chosen by the 16 districts in order to determine which approaches best met the goals of attracting and retaining teachers, ensuring an effective principal, and providing individualized instruction that increases the achievement of students at-risk of school failure.

As part of this critical effort, the State Board of Education will evaluate the performance of students, the supply and retention of teachers, the appropriateness of the current menu of options provided, and the efficacy of DPI assistance. In addition, the State will examine the appropriate state and local fiscal responsibilities for additional investments, and the differences in working with urban versus rural school districts.

Based on evaluation findings, the State will modify the menu of options and expand this effort to additional schools and school districts. The current pilot is a first step and the State recognizes that additional investments are needed for the next school year and beyond.

- 3. Strengthen and expand LEAAP into a new unit under the State Board to improve struggling school districts**

Building on its experience with the Local Education Agency Assistance Program, the State is committed to create a unit under the State Board of Education that works with a set of school districts most in need to analyze the challenges, provide intensive support on resource and policy decision-making, and build the capacity of these districts.

This new unit would work with districts that need immediate and intensive support to improve education for its students. The State will develop criteria to determine which districts are most in need of assistance from this unit.

The unit would provide the following types of assistance: 1) a detailed diagnostic analysis and audit of student performance trends, teacher working conditions, and resource allocation; 2) work with the district to develop a plan for resource reallocation and strategies for deploying additional funding; and 3) brokering relationships/assistance for the districts with higher education partners, the programs of the UNC Center for School Leadership Development, and other appropriate entities. This effort would provide intensive and targeted assistance and guidance on resource allocation and the use of strategies to guide improvement.

The State Board of Education would approve plans for the district's use of state funds based on the unit's work with the district. The unit would be comprised of new personnel assigned solely to this function.

**4. Improve teacher retention and effectiveness by using the Teacher Working Conditions Survey to provide actionable data to schools and districts**

With data that demonstrates a correlation between working conditions and teacher turnover rates and student achievement, the Teacher Working Conditions survey is an important tool for assisting school and district efforts to attract and retain caring, competent teachers and to develop effective principals. In addition to the statewide administration of the data, the State will look to require administration of the survey in targeted schools and districts. This will ensure a full set of data to use as an assessment tool to determine needed strategies in those locations.

The survey data has found that improving working conditions is critical particularly to attracting and retaining high quality teachers for at-risk students. Targeted use of additional resources for this purpose will be considered as a part of state assistance for at-risk students.

**5. Expand the New Schools Project and Learn and Earn Schools to improve the preparation of high school students to access further education and compete for skilled jobs**

The State is committed to an ambitious effort to improve high schools, especially for those students whom the traditional high school model does not serve well and who are at-risk of dropping out. The State intends to expand its development of new schools, schools-within-schools, and Learn and Earn schools to provide access to students in every county. The State Board of Education, working with the New Schools Project, will create a priority list of districts to receive funding and assistance under this project based largely on the needs of at-risk students. All new schools have goals and outcome measures that include improving student achievement, graduation rates and the college-going rates of their students.

The State believes that these efforts will target resources and assistance effectively to provide caring, competent teachers, effective principals, and the individualized instruction needed to help

students at-risk of school failure meet high standards and be well prepared for further education and a skilled workforce.

The State will develop an accountability mechanism to evaluate the impact of these investments to improve the achievement of at-risk students. The mechanism will, at a minimum, use student performance from the ABCs program and the teacher working conditions data. The accountability mechanism should also hold the State accountable for its assistance to districts and schools.

## **ADDITIONAL EFFORTS TO SUPPORT THE STATE'S COMMITMENT TO AT-RISK STUDENTS**

In addition to its commitment to expand and maintain existing initiatives to meet the needs of at-risk students, the State also believes that there are additional efforts needed to support schools and districts to help all students achieve.

### **Expand teacher supply by increasing partnerships between community colleges and schools of education**

The State understands that there is a critical need to boost both the supply and retention of teachers in hard-to-staff schools. The shortage of qualified teachers for hard-to-staff schools is a problem that afflicts every state in the nation. While North Carolina has been recognized for its leadership in this area nationally, the State realizes that more remains to be done.

Hard-to-staff schools in the state have a significant number of lateral entry and first-year teachers. While more needs to be done to induct, support and retain these individuals, the fact remains that there is a shortage in the supply of highly qualified teachers for hard-to-staff schools.

This, however, will not be accomplished by merely increasing the supply at schools of education. Existing patterns show that preparation in the state's schools of education generally leads to employment in the surrounding environs of those universities. Unfortunately, many of the schools and districts with the greatest need for qualified teachers are not in close proximity to schools of education. In addition to providing targeted incentives to bring teachers to hard-to-staff schools, the State believes that it must look to boost the supply of qualified teachers in the areas where they are needed most.

To do so, the State sees great potential in the expansion of "2+2" partnerships between schools of education at four-year institutions and community colleges, which are located in critical regions throughout the state. Existing "2+2" programs have shown great promise in increasing the supply of qualified teachers prepared to teach and remain in areas where teachers are needed. In examining the prospects for expanding this approach, the State will identify regions of the state with high teacher attrition, low levels of teacher candidate supply, and underperforming schools as priorities for "2+2" program expansion.

The state is also committed to examining additional avenues for increasing the supply of teacher candidates from schools of education, resources and approaches to prepare qualified lateral entry candidates, and other strategies to increase the availability of qualified teachers in hard-to-staff schools.

The State recognizes that in working to increase the supply of qualified teachers for hard-to-staff schools it must also remain vigilant to improve the retention of qualified teachers in these schools.

### **Provide high quality professional development for teachers and principals**

Any effort to ensure effective teachers and principals in classrooms and schools must include providing them with high quality professional development that supports their ability to help students reach high standards. The State has invested in a number of important and effective professional development efforts such as the Teacher Academy, the NC Center for the Advancement of Teaching, and the Principals Executive Program. The State has also vested the lion's share of responsibility for providing professional development in schools and school districts. Unfortunately, many teachers and principals report that they lack access to high quality professional development.

The State will explore the development of a comprehensive portfolio of professional development offerings in core areas for principals and teachers. This includes identifying the content areas and skills where teachers and principals need the greatest support, the development of these professional development models, and the deployment of them (including on-line instruction) to teachers and principals.

### **Connect School, Social Service and Juvenile Justice Resources**

The State recognizes that schools and school systems alone cannot meet the challenges of educating all students for the challenges of higher education, the workplace, and participating in the democratic life of their communities. It is critical that children and families receive the support they need to be healthy and actively involved in their children's education.

The State intends to bring together the State Board of Education and the Departments of Public Instruction, Health and Human Services, and Juvenile Justice and Delinquency Prevention to jointly develop strategies for connecting school, social service, and juvenile justice resources.

Efforts would aim to target schools and counties with high need of support across the state. Such efforts might provide for the coordination of parent involvement, mental health services, health services, and delinquency prevention and other juvenile justice-related services for youth and families in participating schools.

### **PLAN FOR IMMEDIATE ACTION**

The State has already demonstrated its commitment to pre-kindergarten for at-risk four-year-olds, class size reduction, additional resources to support at-risk students in targeted schools, district assistance, high school reform and improving teacher working conditions. That commitment will continue.

In addition, the State is committed to expanding a number of these proven strategies, targeting them to meet the needs of at-risk students and finding solutions for other important educational problems, such as increasing the supply of teachers and connecting social services with schools and other areas.

To that end, the State intends to take a budget and policy package including these programs to the 2005 session of the General Assembly.

In the coming months before the 2005 Legislative session, the State will develop the detailed plans needed to carry out the commitments it has described. The Office of the Governor and State Board of Education will work with the General Assembly and with education leaders and other interested parties in crafting the details of these plans.

The State holds that the future growth and prosperity of North Carolina depends upon today's students receiving an education that prepares them for higher education, skilled jobs and careers, and a life of democratic participation.



## LEANDRO V. STATE<sup>1</sup>

### **BEFORE LEANDRO**

- "The people have a right to the privilege of education, and it is the duty of the State to guard and maintain that right." *Article I, Sec. 15, NC Constitution.*
- "General and uniform system: term. The General Assembly shall provide by taxation and otherwise for a general and uniform system of free public schools, which shall be maintained at least nine months in every year, and wherein equal opportunities shall be provided for all students." *Article IX, Sec. 2(1), NC Constitution.*
- "Local responsibility. The General Assembly may assign to units of local government such responsibility for the financial support of the free public schools as it may deem appropriate. The governing boards of units of local government with financial responsibility for public education may use local revenues to add to or supplement any public school or post-secondary school program." *Article IX, Sec. 2(1), NC Constitution.*
- The NC Constitution guarantees that "every child has a fundamental right of equal access to our public schools – that is, every child has a fundamental right to receive an education in our public schools." *Britt v. NC State Board of Education (1987).*<sup>2</sup>

### **LEANDRO CASE INITIALLY FILED**

May 25, 1994

### **PLAINTIFFS**

- Rural, Low-Wealth School Systems (by individuals and the following school boards: Hoke, Halifax, Robeson, Cumberland, Vance)
- Large, Urban School Systems (by individual and the following school boards: Asheville City, Buncombe, Charlotte-Mecklenburg, Durham, Wake, and Winston-Salem/Forsyth)

### **CLAIMS (generally)**

- The State has failed to provide equal educational opportunities for all students.
- The State has failed to provide an adequate system of public schools.

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<sup>1</sup> Mr. Leandro was a student in Hoke County. After he graduated from high school, he was dropped from the litigation. The proper title of the litigation is Hoke County Board of Education v. State.

<sup>2</sup> Plaintiffs were children and parents/guardians in Robeson County. Defendants were the State Board of Education, State Superintendent, and five boards of education and their superintendents in Robeson County. Plaintiffs basically alleged that the State's system of financing public schools deprived the children of a fundamental right to "equal education opportunity." The NC Court of Appeals rejected this claim. Britt v. State Bd. Of Educ., 86 N.C. App. 282, appeal dismissed, 320 N.C. 790 (1987).

### **LEANDRO I: FIRST NC SUPREME COURT DECISION (1997)**

- The NC Constitution guarantees "every child of this state an opportunity to receive a sound basic education in our public schools."
  - "For purposes of our Constitution a 'sound basic education' is one that will provide the student with at least: (1) sufficient ability to read, write, and speak the English language and a sufficient knowledge of fundamental mathematics and physical science to enable the student to function in a complex and rapidly changing society; (2) sufficient fundamental knowledge of geography, history, and basic economic and political systems to enable the student to make informed choices with regard to issues that affect the student personally or affect the student's community, state, and nation; (3) sufficient academic and vocational skills to enable the student to successfully engage in post-secondary education or vocational training; and (4) sufficient academic and vocational skills to enable the student to compete on an equal basis with others in further formal education or gainful employment in contemporary society."
- "[P]rovisions of the current state system for funding schools which require or allow counties to help finance their school systems and result in unequal funding among the school districts of the state do not violate constitutional principles."
- The NC "Constitution does not require that equal educational opportunities be afforded students in all of the school districts of the state."
- "[T]he General Assembly ... has the duty of providing children of every school district with access to a sound basic education, [therefore] we conclude that it has inherent power to do those things reasonably related to meeting that constitutionally prescribed duty."
  - HOWEVER, a school funding system that distributes state funds to school systems in an arbitrary and capricious manner unrelated to legitimate educational objectives would be unconstitutional."

### **BACK TO THE TRIAL COURT**

- The Supreme Court remanded the case back to Superior Court in Wake County for trial on whether there is competent evidence that the State has failed to meet its constitutional obligation to provide an opportunity for a sound basic education to children.
  - If this is proved, then the State is required to establish that its actions "are necessary to promote a compelling governmental interest." If unable to do so, then the court must enter a declaratory judgment and other needed relief to "correct the wrong while minimizing the encroachment upon the other branches of government."
- The parties agreed to separate the case into two separate actions. The first set of hearings addressed the claims of the rural, low-wealth school systems by using Hoke to represent those LEAs.<sup>3</sup>

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<sup>3</sup> The case addressing the issues of the large, urban school systems was tabled, and remains pending.

- Judge Manning issued a series of written opinions by May 29, 2001, following which the State appealed to the Supreme Court.
- While on appeal, the parties were required to submit quarterly reports. And the court continued to monitor the State's actions in Hoke.
- On July 30, 2004, the Supreme Court issued its second Leandro opinion ("Leandro II").

### TRIAL COURT'S CONCLUSIONS CONCERNING HOKE

*The trial court found and concluded as a matter of law that:*

- The Leandro guarantee that each child has the right to an equal opportunity to obtain a sound basic education requires that each child be afforded the opportunity to attend a public school which has the following educational resources, at a minimum:
  - Every classroom must be staffed with a competent, certified, well-trained teacher who is teaching the standard course of study by implementing effective educational methods that provide differentiated, individualized instruction, assessment and remediation to the students in that classroom.
  - Every school must be led by a well-trained competent principal with the leadership skills and the ability to hire and retain competent, certified and well-trained teachers who can implement an effective and cost-effective instructional program that meets the needs of at-risk children so that they can have the equal opportunity to obtain a sound basic education by achieving grade level or above academic performance.
  - Every school must be provided, in the most cost effective manner, the resources necessary to support the effective instructional program within that school so that the educational needs of all children, including at-risk children, to have the equal opportunity to obtain a sound basic education, can be met.
- There are children at-risk of educational failure that are not being provided the equal opportunity to obtain a sound basic education because their particular LEA, such as the Hoke County Public Schools, is not providing them with one or more of the basic educational services set out in the first paragraph.
- The State is ultimately responsible for providing each child with access to a sound basic education, and this ultimate responsibility cannot be abdicated by transferring responsibility to local boards of education.
- The State is ordered to remedy the Constitutional deficiency for those children in any county who are not being provided the basic educational services set out in the first paragraph.
- How to accomplish this task belongs to the Executive and Legislative Branches of Government.

*In addition, the trial court made the following findings:*

- The structure of the State's funding delivery system is constitutionally adequate, given the current level of flexibility granted by the General Assembly.
- The State's accountability program, standard course of study, standards for licensing and employing teachers, and student performance standards are constitutionally acceptable.
- A student performing below Level III on the State's EOG and EOC tests is not on track to receive a sound basic education.
- A child's constitutional right to an equal opportunity to receive a sound basic education does not depend on the age of the child. A child's constitutional right depends on the need of that child including, if necessary, the equal opportunity to receive early childhood pre-kindergarten education.
- An "at-risk" child is being denied a constitutional right if no quality pre-kindergarten educational program is available for the child. The State must provide a program that will help each child come to school ready to take advantage of the educational opportunities offered during and after kindergarten.
- There are at-risk students failing to achieve a sound basic education statewide, as well as in Hoke County and that the low performance of at-risk students is similar regardless of the wealth and resources of the school system attended.
- The school boards provided clear and convincing evidence that there are at-risk children in Hoke County and throughout North Carolina who are not obtaining a sound basic education.
- The school boards have not yet proved, by clear and convincing credible evidence that the failure of at-risk children to obtain a sound basic education is the result of lack of sufficient funding by the State of North Carolina.
- The evidence clearly and convincingly showed that the majority of North Carolina children are NOT at-risk of educational failure and are obtaining a sound basic education.
- The reason at-risk children in North Carolina are not obtaining a sound basic education appears to be the lack of a coordinated, effective educational strategy for at-risk children statewide.
- The evidence was not clear and convincing that the State and each LEA is utilizing its funding and resources in a proper, strategic manner with regard to its at-risk children.