

**Report to the
2001 North Carolina General Assembly
2002 Reconvened Session
Joint Legislative Education Oversight Committee**

**The University of North Carolina
Special Responsibility Constituent Institutions
Designated Under the UNC Management Flexibility Legislation
and UNC General Administration
Summary of Institutional Annual Reports
2000-01**

**The Board of Governors of
The University of North Carolina**

November 9, 2001

Executive Summary

- The UNC Management Flexibility legislation directs the Board of Governors to report annually by March 31 of each year to the General Assembly's Joint Legislative Education Oversight Committee on operating results. Section I of this document summarizes the results of operating during the 2000-01 fiscal year under the UNC Management Flexibility Legislation, as reported by the 16 Chancellors of the Special Responsibility Constituent Institutions (SRCI).
- In its 1998 session, the General Assembly enacted legislation (S.L. 1998-212, section 11(b)) which stated that for fiscal years beginning with 1999-2000, no reversions to the State's General Fund are required. However, the UNC constituent institutions were required to contribute \$32 million (1.91% of their state appropriations) during 2000-01 to offset the budget shortfall.
- \$22 million in appropriations remained unspent in the SRCI's institutional operating budgets and are available for carry-forward into the 2001-02 fiscal year for one-time expenditures that will not impose additional financial obligations on the State. Operational savings and efficiencies were also reported in a number of areas.
- One-time reallocations of \$106.2 million from lapsed salary funds and \$37.6 million from other sources and recurring reallocations of \$24.8 million were made to carry out management initiatives on the campuses. These amounts represent 4.94% and 1.75% and 1.16% respectively of the authorized budget requirements of the institutions at the end of the fiscal year. University-wide, major emphases were placed on strengthening undergraduate instruction and improving graduation rates, graduate instruction and research, upgrading classrooms, laboratories, and administrative infrastructure and expanding computing and telecommunications capabilities.
- 109 teaching (of approximately 10,000 total) and 248 non-teaching positions were reported as being vacant for nine months or more during fiscal year 2000-01.
- During the 2000-01 fiscal year, 6,230 purchases totaling \$197.8 million were made on campus between the old benchmark of \$10,000 and the institution's increased benchmark, which ranged from \$35,000 to \$250,000. This represents a 24% (based on dollar amount) increase over the 1999-2000 fiscal year. Without the special legislation, these purchases would have required processing through the central Purchase and Contract Division in Raleigh.
- In response to the requirement for more stringent monitoring of internal/financial controls and management staffing, each of the institutions provided a compliance certification letter, signed by the Chancellor, certifying that their institution complied in the areas outlined by the guidelines. The results of the compliance certifications were very positive and demonstrated the commitment to strong institutional management, accountability over resources, and internal control structures.

- Management Flexibility legislation has enabled the Chancellors to take ownership of their budgets to an extent not previously possible and manage their resources more efficiently and thereby better utilize the taxpayers' dollars.
- The General Assembly, in the 1999 Regular Session, extended management flexibility to the University of North Carolina General Administration on a basis comparable to that authorized for the special responsibility constituent institutions. This report documents the General Administration's use of flexibility provisions in Section II.

The University of North Carolina
Summary of Annual Reports
Section I – Special Responsibility Constituent Institutions
Designated Under the UNC Management Flexibility Legislation
2000-01

The Regular Session of the 1991 General Assembly enacted the UNC Management Flexibility legislation (G.S. 116-30) which granted significant additional authority in the areas of budgeting, personnel administration, and purchasing to those institutions designated as “special responsibility constituent institutions.” The Board of Governors, acting on the recommendation made by the President after consultation with the State Auditor, was authorized to designate one or more institutions as special responsibility constituent institutions. In this regard, the Board of Governors adopted Selection Criteria and Operating Instructions for Special Responsibility Constituent Institutions on September 13, 1991; these criteria have been updated to reflect changes as needed. Between October of 1991 and September of 1993, the Board of Governors designated all 16 constituent institutions as “special responsibility constituent institutions.”

The UNC Management Flexibility Legislation directs the Board of Governors to report annually by March 31 of each year to the General Assembly's Joint Legislative Education Oversight Committee on operating results. This document summarizes the results reported by the 16 Chancellors of the Special Responsibility Constituent Institutions that operated under the UNC Fiscal Management Flexibility Legislation during the 2000-01 fiscal year. Although each report necessarily described the results that were applicable to the particular institution, observations can be made which reflect common or similar experiences for several or all institutions.

Impact on Education. The management flexibility legislation directs the Board of Governors to develop standard measures of student learning and development in general undergraduate education in order to assess the impact of the legislation on

these areas at the designated institutions. These measures have been developed and the impact of management flexibility is included as a part of the assessment measures reports, which are separately made to the Joint Legislative Education Oversight Committee.

Reversions. In accordance with legislation enacted in 1998 [S.L. 1998-212, section 11(b)], for fiscal years beginning with 1999-2000, no reversions to the State's General Fund are required. However, during 1999-2000, UNC institutions were required to contribute to offset Hurricane Floyd damages (\$13.7 million) and to reallocate \$1.3 million in previously required reversions to initiatives funded in the expansion priorities. In fiscal year 2000-01, the UNC constituent institutions were required to contribute \$32 million (1.91% of their state appropriations) to offset the budget shortfall.

Fiscal Savings. A total of \$22 million in appropriations remained unspent in the SRCT's operating budgets, which represents savings available for carry-forward into the 2001-02 fiscal year for one-time expenditures that will not impose additional financial obligations on the State.

At the programmatic level, the institutional reports identified a number of operating efficiencies and related effective uses of financial resources that resulted in savings during the 2000-01 fiscal year. While there are inherent limitations in quantifying these savings in dollar terms, specific examples reported by the institutions provide evidence that budget flexibility continues to give the institutions greater ability to operate more efficiently and thereby save taxpayers' dollars.

The following examples are drawn from among those presented in institutional reports. As a part of its recovery from flood damage, East Carolina University replaced a damaged Nortel Access Node with a reconditioned unit from a third party, netting savings of \$160,000; an additional \$159,300 was saved in annual maintenance costs when the financial records system was upgraded. At UNC Charlotte, a study of the best method of heating and cooling five buildings

eliminated the need for a central steam plant, saving the institution \$200,000; UNC Pembroke saved \$86,000 by reallocating funds to repair rather than replace musical equipment.

Management Initiatives. During 2000-01, campuses reallocated \$143.8 million on a one-time basis and \$24.8 million on a permanent basis to carry out management initiatives. The degree of emphasis placed on specific initiatives reflects individual institutional needs and decisions. University-wide, major emphases were placed on strengthening undergraduate instruction and improving graduation rates; upgrading classrooms, laboratories and other physical facilities; strengthening administrative infrastructure; and expanding computing and telecommunications capabilities. On a permanent basis, there was an increased focus on providing a more robust set of student services.

It is evident that major initiatives on all campuses have been undertaken to improve institutional budget and personnel administration. The trend continues toward developing an increased level of participation by the chancellors, vice chancellors and their managers in budget planning and execution. This involvement has permitted a number of expenditure decisions to be made at the program level in the organization, often at the department or school. Since flexibility allows the expenditure of unspent salary funds from vacant positions (lapsed salaries) to be used for non-personnel purposes, detailed expenditure plans have been more comprehensive than previously possible. Flexibility has also permitted management to focus decisions on program priorities instead of budget categories. In addition, release from the rigid time frame of the fiscal year gives the campuses an opportunity for multi-year budget planning.

Significant reallocations continue to support the acquisition of computing equipment, including initiatives dedicated to providing wireless connectivity in classrooms and common areas for students. This investment reflects the joint

commitment of the campuses, the Board of Governors and the General Assembly to provide enabling technology for higher education in North Carolina.

Expanding distance learning capabilities continued to be an important focus for the SRCIs during 2000-01. Reallocations supported the modification of classrooms for teleconferencing and broadcasting, the development of on-line courses, the purchase of software related to technology-mediated instruction, and training and mentoring of faculty to provide this instruction.

During 2000-01, a growing emphasis on improving security on campus was evident. One-half of the campuses reported reallocations to fund safety initiatives that included upgrading alarm systems, providing extra security for special events, providing electronic locks, and increasing security personnel. UNC Greensboro purchased bullet resistant vests for its police officers, and North Carolina State University provided radios for use by library staff working in isolated areas.

Diversity initiatives undertaken at many institutions demonstrated commitment to ensuring that the campus community fosters and appreciates a wide variety of cultural differences. Several campuses reported reallocations to improve disability services for students (including interpreters for the hearing-impaired and computer equipment designed for disabled students) and to provide ADA-related physical space upgrades. In response to North Carolina's rapidly-expanding Hispanic population, some of the institutions hired English/Spanish interpreters.

Recognizing the vital role of student retention on campus enrollments, institutions continue reallocations to support and strengthen the adaptation of new students to campus life. Programs such as UNC-Chapel Hill's Freshmen Experience is being modeled at UNC Charlotte (First Year Experience) and efforts such as the Integrated Student Service Project are underway at the focused growth institutions to enrich the experience of freshmen.

Finally, management flexibility has enabled the institutions to respond to unforeseen circumstances, including budget shortfalls due to extraordinary increases in the costs of utilities, and the need to meet mandatory reversion requirements related to the current financial condition of the State of North Carolina. Reallocations to cover these two items comprise more than \$38.3 million of the \$143.8 million in one-time reallocations.

Increased Efficiency and Effectiveness Achieved. Although closely related to the sections on fiscal savings, management initiatives, and reallocation of resources, certain summary conclusions may be drawn from the institutional reports on the achievement of increased efficiency and effectiveness.

Major efficiencies are principally attributable to the provision that all General Fund appropriations for continuing operations are made to the designated institutions in the form of a lump sum to each budget code, giving the institutions the ability to use funds budgeted for salaries of vacant positions for non-personnel expenditures. Before flexibility, unspent salary funds were not available for such uses. The institutions used lapsed salary funds to update and replace obsolete educational, scientific, and computing equipment; to repair and renovate teaching and laboratory facilities; and to make other one-time improvements in instruction and support functions. Emphasis continues to be placed on providing the infrastructure to support increased levels of instruction offered at a distance, consistent with the Board's initiative to expand access to educational opportunities to a greater number of North Carolina's citizens. In addition, campuses are investing in attracting and retaining quality employees in a tight labor market through appropriate adjustments to hiring rates, reclassifications and through providing increased training opportunities. Flexibility also has provided the opportunity for the institutions to reallocate resources in response to changing institutional priorities, as well as to respond to unforeseen opportunities or challenges. This ability proved critical to the institutions during 2000-01 as the State's financial

condition necessitated more than \$32 million from UNC budgets to be returned to the State, and will continue to be an important option if the State's economy remains weakened.

The management flexibility given to the designated institutions in purchasing administration has contributed to significant improvements. Prior to the management flexibility legislation, institutional purchases of \$10,000 or more required processing through the central Purchase and Contract Division in Raleigh. Under flexibility, the threshold amount has been increased to a maximum of \$250,000.

During 2000-01, 6,230 purchases totaling \$197.8 million were made on the campuses between the old benchmark of \$10,000 and the increased benchmarks. This represents a 24% (based on dollar amount) increase over the 1999-2000 fiscal year. In addition, the decrease in time required to process purchase orders has been significantly decreased.

Flexibility given to the institutions in the area of personnel administration has greatly enhanced their abilities to manage human resources. Institutions are still subject to the applicable rules and regulations of the Office of State Personnel under any Performance Agreement concerning employees subject to the State Personnel Act and also the rules and regulations of the Board of Governors with respect to faculty and other employees exempt from the State Personnel Act. Nevertheless, flexibility has given institutions the ability to examine their spending patterns and reallocate funds in order to use resources more effectively.

Documentation of Reallocation of Resources. Each institution was required to include in its 2000-01 annual report all net budget transfers that were authorized by the Chancellor and which previously required the approval of the Office of State Budget and Management. These reallocations, made to implement the management initiatives undertaken by each campus, distinguished between one-time transfers of lapsed salaries, one-time transfers from other sources, and permanent transfers.

One-Time Reallocations – For the 2000-01 fiscal year, one-time reallocations from lapsed salary funds totaled \$106.2 million, which represented 4.94% of the authorized budget requirements of the institutions at June 30, 2001. Of these funds, \$59,946,953 (56%) was generated from lapsed teaching salaries, while \$46,252,044 (44%) was from lapsed salaries from non-teaching positions. One-time reallocations from other sources totaled \$37.6 million, which represented 1.75% of the authorized budget requirements of the institutions at June 30, 2001. University-wide, 74% of the funds reallocated from one-time transfers came from unspent salary funds from vacant positions.

Permanent Reallocations – In addition to the one-time budget reallocations, a lesser number of permanent reallocations were made at the institutions during the year. Many of these involved increases in personnel budgets. Implementation of all personnel actions under budget flexibility are subject to the availability of funds within the institution's currently authorized budget to fund the full annualized costs of the actions taken.

During the 2000-01 fiscal year, permanent reallocations totaled \$24.8 million, which represented 1.16% of the authorized budget requirements of the institutions at June 30, 2001. None of the dollars permanently reallocated involved teaching positions; \$16.6 million (67% of total permanent reallocations) were transfers to non-teaching positions.

Vacant Positions. A total of 357 positions, University-wide, were vacant for nine months or more during fiscal year 2000-01.

Of the 109 vacant teaching positions, the majority of positions remained vacant due to recruitment issues, searches which were underway, or to support temporary positions or operating needs. A significant number of positions (57) involved a delayed search process; as of June 30, 2001 these searches were underway.

The 248 non-teaching positions vacant for nine months or more reflected both problems in recruitment and conscious decisions to hold positions vacant in anticipation of budget reductions. Additionally, decisions related to reorganizations/reclassifications, time-consuming searches (29), and the need to support temporary operating needs resulted in these vacancies.

Twenty-five of reported vacant positions had been filled by June 30, 2001; an additional 71 positions were filled between July 1, 2001 and the October, 2001 reporting date.

Availability and Use of Appropriations Carried Forward. Appropriations in the amount of \$22 million remained unspent as of June 30, 2001. The flexibility legislation provides that the appropriations carried forward “may be used for one-time expenditures that will not impose additional financial obligations on the State.” The planned expenditures of the funds include nonrecurring academic and library needs of \$7.5 million, administrative operating needs of \$3.9 million, repairs and supplements to capital projects of \$2.7 million, and costs associated with temporary and contract employees of \$2.7 million. Almost 9% (\$2.1 million) of the funds will be needed to meet the shortfall in rising utility costs, with the remainder of the funds being earmarked for information technology, covering encumbrances outstanding at the end of fiscal year 2001, aids and grant support, and various other one-time initiatives.

Internal Financial Controls and Management Staffing. The Second Extra Session 1996 amended the management flexibility legislation directing the Board of Governors to establish more stringent rules for monitoring and resolving audit exceptions and for reviewing and monitoring staffing and internal control procedures. These directives focused on a continuing assessment of the competence of the institutions to carry out the additional authority granted in the areas of budgeting, personnel administration, and purchasing.

Each of the special responsibility constituent institutions provided a compliance certification letter, signed by the Chancellor, certifying that their institution complied in the areas outlined by the instructions. The results of the compliance certifications were positive and demonstrated the commitment to strong institutional management, accountability over resources, and internal control structures. No instances of non-compliance were reported.

Additional Costs Incurred. The institutions reported that no significant additional costs were incurred as a result of management flexibility.

**The University of North Carolina
Summary of Annual Reports
Section II – UNC General Administration
Designated Under the UNC Management Flexibility Legislation
2000-01**

The General Assembly, in its 1999 Regular Session, extended management flexibility to the University of North Carolina General Administration [G.S. 116-14, section b1-b2 and G.S. 116.30.3(e)]. The results of the UNC General Administration's use of budget flexibility for the fiscal year 2000-01 are included in this report.

The UNC General Administration reports fiscal savings through elimination of duplicated data lines discovered in a telephone audit and outsourcing of selected information technology services.

Management initiatives undertaken by UNC General Administration emphasized expanding computing, telecommunication and information resources, and strengthening such targeted program areas as the North Carolina Teacher Academy and the Pathways program. Temporary wages to cover essential functions performed by vacant positions and support for the UNC System-wide Bond Program were also significant areas of focus.

Total one-time reallocations of \$2,059,738 included \$1,005,082 of transfers from lapsed salary funds. The major source of reallocations from non-lapsed salaries sources came from reductions in current services. Permanent reallocations of \$405,765 were made during 2000-01, most of which was used to support personnel-related expenditures.

The UNC General Administration carried forward \$1.4 million to 2001-02. Planned expenditures for these funds include systemwide initiatives, including those related to the UNC bond project (\$1.1 million), minor repairs and renovations (\$160,000), UNC website enhancement (\$45,000) and encumbrances outstanding at the end of fiscal year 2001 (\$121,120).

During 2000-01, UNC General Administration established eight positions and abolished three positions, for a net increase of five positions. Eight positions, four EPA non-teaching and four SPA, were reported as being vacant for nine months or more during 2000-01. Three of these vacancies reflected recruitment difficulties; the others were held vacant in anticipation of budget reductions.

The UNC General Administration reported no instances of non-compliance with required rules, regulations and guidelines.