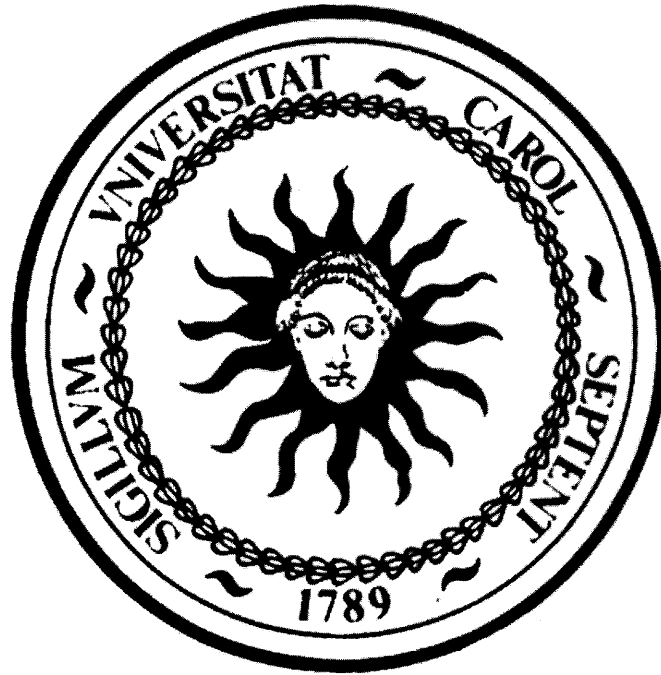


**Report to the
2007 North Carolina General Assembly
Joint Legislative Education Oversight Committee**



**The University of North Carolina
Summary of Institutional Annual Reports
Special Responsibility Constituent Institutions
UNC General Administration
North Carolina School of Science & Mathematics
2005-06**

March 31, 2007

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 2005-06 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, 2005-06 is the first year since the legislation was enacted that the institutions have not reverted funds to the General Fund. In previous years, the state required reversions to offset the budget shortfall and for disaster relief for recovery from hurricanes that impacted North Carolina.
- One-time reallocations of \$162.7 million from lapsed salary funds and \$65.5 million from other sources and recurring reallocations of \$45.5 million were made to carry out management initiatives on the campuses. These amounts represent 5.69%, 2.29%, and 1.59% respectively of the authorized budget requirements of the institutions at the end of the fiscal year. University-wide, major emphases continue to be placed on strengthening undergraduate instruction and improving graduation rates, graduate instruction and research, enhancing physical facilities and their operations, upgrading infrastructure and expanding computing and telecommunications capabilities.
- 293 teaching (of approximately 13,600 total) and 269 non-teaching positions were reported as being vacant for nine months or more during fiscal year 2005-06.
- During the 2005-06 fiscal year, 7,255 purchases totaling \$269.2 million were made on the campuses between the old benchmark of \$10,000 and the increased benchmarks, which ranged from \$35,000 to \$500,000. Without the special legislation, these purchases would have required processing through the central Division of Purchase and Contract in the Department of Administration.
- 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 his/her institution complied in the areas outlined by the guidelines. The compliance certifications demonstrate 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 UNC General Administration’s use of flexibility provisions in Section II.
- In its 2001 Regular Session, the General Assembly extended management flexibility to the North Carolina School of Science and Mathematics, on a basis comparable to that authorized for the special responsibility constituent institutions. This report documents NCSSM’s use of flexibility provisions in Section III.

The University of North Carolina
Summary of Annual Reports
Section I – Special Responsibility Constituent Institutions
Designated Under the UNC Management Flexibility Legislation
2005-06

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 2005-06 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, 2005-06 is the first year since the mandatory reversion requirement was eliminated that the institutions have not reverted funds to the General Fund. In previous years, the state required reversions to offset the budget shortfall and for disaster relief for recovery from hurricanes that impacted North Carolina.

Fiscal Savings. 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 2005-06 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.

Computer purchases for campus departments were combined and bid to produce one-time savings (\$483,366) beyond convenience contract pricing for East Carolina University. North Carolina Agricultural and Technical State University was able to save \$398,257 by employing temporary workers in some areas and outsourcing other work which would have previously been done through the hiring of permanent staff and also the purchase and use of gas-electric GATORS, which has reduced the amount of utility costs. Similarly, NCSU saved \$746,683 by more efficient use of current staff and research assistants and the hiring of temporary employees. In addition, NCSU achieved efficiencies in information technology areas through the use of internal design, consulting and project management services to departments decreasing the need for hiring outside contractors thus producing \$66,000 in fiscal savings.

UNC-Chapel Hill saved \$825,663 by the employment of temporary employees, students, contract employees and dual employment, which enabled the campus to provide the necessary services without creating permanent positions. In addition, UNC-CH realized \$1,855,621 in savings through the development of Web-based applications within the university as opposed to purchasing external systems and also achieved savings of \$1,778,625 by funding maintenance agreements to extend the life of equipment thus reducing equipment replacement costs. Western Carolina University was able to achieve one-time savings of \$12,074,065 through a discount offered on an Oracle enterprise-wide license to secure unlimited use of the product that is core to all major business applications at the university.

Management Initiatives. During 2005-06, campuses reallocated \$228.1 million on a one-time basis and \$45.5 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, graduate instruction and research, expanding computing and telecommunications capabilities, upgrading classrooms and labs through repair and renovations as well as equipment purchases, enhancing physical facilities and operations, and strengthening infrastructure. On a permanent basis, there was an increased focus on strengthening undergraduate instruction and graduation rates, graduate instruction and research, computing and telecommunications, and improving infrastructure.

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 other managers in budget planning and execution. 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. This changed approach provides 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. The constituent institutions continued collaboration on moving to new, more efficient, administrative computer systems to better support the academic, research, and public service missions of the campuses. These efforts yielded more favorable pricing, and facilitated sharing between campuses as they prepare to implement the systems.

Management flexibility has enabled campuses to provide critically important operating funds for academic departments, equipment for classrooms and laboratories, and temporary and part-time workers to continue basic campus operations in the face of budget reductions and required reversions. This is also evident in the fact that many campuses have been forced to rely

on management flexibility to reallocate funds to meet the need to supplement under-funded utilities budgets. Many campuses continue to report the need to supplement these budgets due to utility rates out-pacing allowable inflationary increases in the university continuation budget.

Management initiatives were also undertaken to capitalize on the ability to carry forward unspent appropriations into the next fiscal year to meet high priority needs, especially for renovation projects and equipment purchases. As previously noted, \$27.1 million in unspent appropriations was carried forward into the 2005-06 fiscal year. Several institutions planned expenditures so that funds would be available to finance specific, high priority renovations projects. Before budget flexibility was granted, institutions did not have the option to carry current operations appropriations forward to fund capital improvements projects and meet other needs.

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. Prior to flexibility authorization, unexpended salary funds were not available for such uses. In 2005-06, 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 have invested 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 institutions to reallocate resources in response to changing institutional priorities, as well as to respond to unforeseen opportunities or

challenges. Such opportunities are evidenced at the campuses, as mentioned in the section on fiscal savings, where flexibility allowed timely purchases through agreements with vendors or making purchases in bulk which results in savings.

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 Division of Purchase and Contract in the Department of Administration. Under flexibility, the benchmark amount was increased to a maximum of \$500,000 by the 2003 General Assembly.

During 2005-06, 7,255 purchases totaling \$269.2 million were made on the campuses between the old benchmark of \$10,000 and the increased benchmarks. In addition, the time required to process purchase orders has been significantly decreased.

Under budget flexibility, institutions have the authority to create and abolish positions to realign budgets to meet managerial needs. Although personnel budgets may be realigned under budget flexibility, institutions continue to adhere to separate rules and regulations regarding personnel actions. For SPA employees, institutions are subject to applicable rules and regulations promulgated by the Office of State Personnel and operate under Performance Agreements negotiated with that Office that allow campuses to make decisions independent of OSP. EPA employees are subject to policies set by the Board of Governors. The General Assembly has now provided the Board with the ability to delegate personnel responsibilities to the campuses and eleven have applied for and received the ability to act independently of the Board of Governors in certain personnel areas.

Documentation of Reallocation of Resources. Each institution was required to include in its 2005-06 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 2005-06 fiscal year, one-time reallocations from lapsed salary funds totaled \$162.7 million, which represented 5.69% of the authorized budget requirements of the institutions at June 30, 2006. Of these funds, \$101,990,446 (63%) was

generated from lapsed teaching salaries, while \$60,694,511 (37%) came from lapsed salaries from non-teaching positions. One-time reallocations from other sources totaled \$65.5 million, which represented 2.29% of the authorized budget requirements of the institutions at June 30, 2006.

Permanent Reallocations – In addition to the one-time budget reallocations, a lesser number of permanent reallocations were made during the year. Many of these involved increases in personnel budgets. Implementation of all personnel actions under management flexibility is 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 2005-06 fiscal year, permanent reallocations totaled \$45.5 million, which represented 1.59% of the authorized budget requirements of the institutions at June 30, 2006. Of these permanent reallocations, 656 positions were established and 169 positions were abolished for a University-wide net increase of 487 positions.

Vacant Positions. A total of 562 positions, University-wide, were vacant for nine months or more during fiscal year 2005-06. Of these, 293 were teaching and 269 were non-teaching positions.

The largest number of vacant positions were those held open due to recruitment issues (180). In addition, a significant number of positions (175) remained open due to temporary operating needs. Other explanations for extended vacancy periods include search underway for replacement (81), reorganizations/reclassifications (47), pending/recent new management in the area (27), temporary positions (44), and anticipated budget reductions (8).

Availability and Use of Appropriations Carried Forward. The Management Flexibility legislation provides that the appropriations carried forward of up to 2.5% "may be used for one-time expenditures that will not impose additional financial obligations on the State." University-wide, \$27.1 million were carried into fiscal year 2006-07 from 2005-06.

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 compliance certifications demonstrated the Chancellors' 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
2005-06

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 management flexibility for the fiscal year 2005-06 are included in this report.

UNC-General Administration reports fiscal savings through the use of temporary employees to perform critical duties while permanent positions were vacant and through outsourcing selected information technology services. UNC-GA also was able to streamline the document duplication process through the implementation of a digital duplicating center. The one-time investment will realize \$100,000 in savings over five years (\$20,000 in 2005-06).

Management initiatives undertaken by UNC General Administration emphasized undergraduate instruction and improving graduation rates through teacher recruitment and retention initiatives, enhancement of physical facilities with a cooling tower replacement; expansion of computing, telecommunication and information resources; improvement of administrative services infrastructure; and strengthening such targeted program areas as the NC Teacher Academy, the UNC Center for School Leadership Development, the NC Center for International Understanding, the NC Progress Board, and the Principal's Executive Program. Total one-time reallocations of \$3,109,960 included \$2,247,072 of transfers from lapsed salary funds. Permanent reallocations of \$605,897 were made during fiscal year 2005-06. UNC-GA carried forward \$1,411,457 and will use those funds to liquidate outstanding encumbrances, support information technology, and cover an anticipated utility budget shortfall.

During 2005-06, 157 purchases totaling \$2,532,386 were made by UNC-GA between the benchmarks of \$10,000 and \$25,000.

During 2005-06, UNC-General Administration established 7.50 positions and abolished 13 positions, for a net decrease of 5.50 positions. Three SPA positions were reported as being vacant for nine months or more during 2005-06.

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

The University of North Carolina
Summary of Annual Reports
Section III – North Carolina School of Science and Mathematics
Designated Under the UNC Management Flexibility Legislation
2005-06

The General Assembly, in its 2001 Regular Session, extended management flexibility to the North Carolina School of Science and Mathematics [G.S. 116-30.2(b)]. The results of the School's use of management flexibility for the fiscal year 2005-06 are included in this report.

Management initiatives undertaken by North Carolina School of Science and Mathematics emphasized strengthening instruction, addressing safety concerns on campus, upgrading classrooms and laboratories, and expanding telecommunications capabilities. NCSSM carried forward \$418,303 to address salary issues.

During 2005-06, 9 purchases totaling \$370,750 were made by NCSSM between the benchmarks of \$10,000 and \$35,000.

Total one-time reallocations of \$41,901 were entirely funded through lapsed salaries. Permanent reallocations of \$167,778 were made during 2005-06, all of which were used to support personnel-related expenditures.

During 2005-06, North Carolina School of Science and Mathematics established one position and abolished one position. Three positions were reported as being vacant for nine months or more.

North Carolina School of Science and Mathematics reported no additional costs due to management flexibility. NCSSM reported no instances of non-compliance with required rules, regulations and guidelines.