

APPENDIX A

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President's Report to the Board of Governors
UNC General Administration Building Board Room
November 12, 2004
10:30 a.m.

2004 Enrollment Continues Strong Growth Trend

Yesterday, during the Ed Planning Committee meeting, Dr. Mabe provided a comprehensive report on University enrollment for fall 2004. That final report confirms a continuing trend of extraordinary enrollment growth across the University. University-wide enrollment is up by nearly 6,300 students, pushing us to a historic high of 189,615. This marks the fourth consecutive year that UNC enrollment has risen by more than 6,000 students. To put such growth in perspective, consider that over the past five years, our campuses have enrolled nearly 29,000 additional students—a group that approximates the entire student body of North Carolina State University.

Copies of the full report are in your folders, but let me take just a moment to mention a few highlights:

- While enrollment at the School of the Arts remained steady (dropping by just four students), every other UNC campus experienced significant growth this fall. Five absorbed more than 500 additional students. For the second year in a row, ECU absorbed more than 1,000, and Western Carolina—one of our focused growth institutions—enrolled more than 800 additional students.
- We experienced significant growth in every identified racial category, with minority enrollment increasing at more than double the rate of white enrollment.
- Enrollment growth remained especially strong among our focused-growth institutions, critical to managing University-wide growth over the decade. As a group, these seven campuses grew by more than 7 percent, tangible evidence that the legislative support provided to help these smaller campuses build capacity in enrollment management, fundraising, and other areas is paying dividends.
- Student demand for distance education surged by nearly 25 percent. More than 18,400 students (a cohort nearly as large as the student body of UNC Charlotte) enrolled in courses taught at a distance, including more than 6,100 who also were taking regular on-campus courses. More than 70 percent of students enrolled in off-campus distance-education courses this fall are age 25 or older.
- The proportion of recent North Carolina high school graduates who enrolled on a UNC campus inched up slightly to 30.8 percent this fall. This increase in the UNC-going rate is great news, but we must continue to push this number ever higher.

UNC Campuses Taking Steps to Boost Teacher Supply

Yesterday, the Ed Planning Committee also heard an update on enrollment projections, targets, and tracking for teacher education. You will recall that the report from your Task Force on Meeting Teacher Supply and Demand called on the president to develop a plan for enrollment growth in our programs of teacher education that was responsive to the

severe shortage of qualified teachers for our public schools. Stepping up to the challenge, our deans of education have committed to increase the number of traditional and alternative-licensure teachers they produce by about 60 percent over the next five years, and to double the number of traditional graduates over the next decade.

As the task force acknowledged, however, addressing this vexing shortage will require a coordinated partnership that includes improvements in the retention of teachers once they are in the classroom. Remarkably, Dr. Mabe's report demonstrated that a 50-percent increase in UNC teacher production—coupled with a 5-percent improvement in teacher retention—would all but erase the projected shortage.

The 2005-07 Budget Request

As was discussed earlier during the meeting of the Public Affairs Committee, the General Assembly that convenes in January will have a somewhat different composition from the one that adjourned this past summer. We will have 33 new legislators (12 in the Senate, 21 in the House). Democrats regained a majority in the House and gained additional seats in the Senate, as well.

We are well aware that the state's economic health remains uncertain, and that we once again will be called upon to meet escalating enrollment demand in a period of limited financial resources. The full fiscal impact of the latest round of hurricane recovery efforts remains to be seen, for example. Against such a backdrop, you will consider today the adoption of a University-wide budget request for the 2005-07 biennium, one that meets this Board's statutory obligation to present to the Governor, the General Assembly, and the people of the state the true needs of the University, whatever the current fiscal outlook. As was discussed yesterday in the Finance Committee, it represents our best estimate of the resources required to preserve and expand affordable access to the University, attract and retain the best faculty and staff, sustain academic quality, and respond to critical state needs related to the K-16 initiatives, health care, and economic development and competitiveness.

It is a large request, and we have no expectation that it can be fully funded in this biennium; however, it is important that the Board provide a clear statement of the investment required for the University to meet the growing needs and expectations of North Carolinians. It is our hope that it will enable the Governor and legislators to make more informed decisions about the University's most pressing needs and highest priorities.

Let me say just a few words about key components of the budget, beginning with academic salary increases. We know beyond a doubt that the quality of a university rests squarely on the quality of its faculty. While the 2004 General Assembly did provide a 2.5-percent pool of funds for all faculty and other EPA employees—and all employees received at least \$1,000—we acknowledge that this was completely inadequate to provide the level of salary increases that are deserved and long overdue. The budget request before you seeks 7.5-percent salary increases in each year of the biennium. And while the salary request for the University's SPA employees is not within the purview of the

Board of Governors, we must continue to reiterate that the lack of competitive salaries for these critical support positions is an area of growing concern, as well.

In keeping with the identification of Access as the Board's highest priority, full funding for projected enrollment growth and incremental expansion of UNC's Need-Based Financial Aid Program form the largest item in the expansion request. All other expansion items are tightly linked to the small set of strategic directions adopted by this Board.

One critical component of the expansion request responds to the imperative that North Carolina reshape and strengthen its economy. The request asks for increased state investments in faculty research to capitalize on growing federal funding for research in areas of strategic importance to North Carolina. In this same vein, the Public Outreach component of the request would position the University to play a more active role in fostering statewide economic development.

Response to the Auditor's Special Review of the NC School of the Arts

In the weeks since the State Auditor issued his findings from a special review of the North Carolina School of the Arts, we have taken extensive steps to address the problems that surfaced during that special review. From the outset, Chancellor Hobgood has cooperated fully in assessing the problems, analyzing campus financial operations, and correcting inappropriate practices.

In addition to notifying Chancellor Hobgood that the campus had 90 days to make satisfactory progress towards addressing the problems or its budget flexibility would be withdrawn, we have implemented intensive oversight and monitoring activities that are being carried out under the leadership of Vice President Jeff Davies. Among other things, those activities include the approval of all budget transfers made under budget flexibility delegation; the review of all budget-related personnel actions, EPA designations, and overtime and one-time payments; and the review of internal controls and personnel authorized to approve the expenditure of state and foundation funds.

I have made it clear to the chancellor that this expanded oversight will remain in effect as long as needed to ensure the fiscal integrity and credibility of the School's administration. George Burnette, one of our associate vice presidents for finance, is acting as the School's chief financial officer and is actively involved in the search for a permanent CFO. The School's Director of Internal Audit will report any findings or pertinent information immediately to Vice President Davies.

Aided by a committee of senior campus officials, Vice President Leslie Winner is reviewing the adequacy of the current policy concerning private foundations, associations, or clubs created primarily for the purpose of financial support of UNC campuses. Working with a group of campus CFOs, Vice President Davies is leading a similar effort to develop additional financial, governance, and organizational guidelines for the operation of University-related foundations. As a follow-on to that work and any related Board action, a workshop with mandatory attendance for officials of all campuses

and affiliated organizations will be offered in the first quarter of 2005. And as noted in our formal response that was released as a component of the Auditor's report, we have revised the annual certification that must be signed each year by the chancellor in order to maintain the campus' budget-flexibility status. This addition to the certification is intended to ensure compliance with all Board policies and guidelines relating to these foundations.

While I am confident that that serious problems identified at the School of the Arts are being addressed appropriately and expeditiously, I am equally convinced that it is time for *this* Board to carefully consider taking on additional oversight duties to ensure that it is fulfilling its considerable fiduciary responsibilities to the University. Such duties might be carried out by means of a new Audit Committee of the Board or through various alternative approaches.

It has now been more than two years since the Sarbanes-Oxley Act was signed into law. While this federal legislation—passed in the wake of major corporate scandals—applies only to publicly traded companies registered with the Securities and Exchange Commission, it has nonetheless raised expectations in general for institutional accountability and responsibility. In that context, I would hope that the Board of Governors would consider adding the following types of activities to your regular oversight duties:

- Reviewing the State Auditor's annual reports for all UNC campuses and affiliated entities;
- Meeting annually with the State Auditor;
- Reviewing system-wide financial statements (previously unprepared) on an annual basis until we have a data warehouse capable of producing them on a more frequent basis;
- Reviewing a summary report on the financial statements of all non-profit entities that support the University;
- Receiving an annual report on endowments in the University;
- Reviewing the activities of internal auditors on the campuses, as well as the agendas for periodic meetings of the internal auditors;
- When appropriate, making recommendations to improve internal controls, strengthen reporting relationships, or improve accountability within the University; and
- Exploring features of the Sarbanes-Oxley Act that might be particularly relevant to public universities.

To provide a framework for that important discussion, I have asked Chairman Wilson to identify a small group of Board members to work closely with me and with Vice President Davies in addressing this issue and developing a set of recommendations for the full Board's consideration.

Mr. Chairman, this concludes my report.