

APPENDIX W

UNC Management Flexibility Legislation, Summary of Institutional Annual Reports, 2002-03

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. In this regard, the *Operating Instructions for Special Responsibility Constituent Institutions* adopted by the Board require each designated institution to submit an annual report. In its 1999 Legislative Session, the General Assembly enacted legislation that extended management flexibility to the University of North Carolina General Administration on a basis comparable to that authorized for the special responsibility constituent institutions; it extended management flexibility to the North Carolina School of Science and Mathematics in the 2001 Legislative Session. All institutions have complied with the reporting requirement for the 2002-03 fiscal year and the reports have been summarized into the *Summary of Institutional Annual Reports* attached. Copies of the individual campus reports are available upon request.

On August 11, 2000, the Board took action to require increased accountability over the expenditure of lapsed salary funds. The accountability is partially fulfilled through additions to the annual report that deal with lapsed salary expenditures and a list of positions held vacant for nine months or more. Highlights of 2002-03 results are shown in the Executive Summary.

It is recommended that the attached *Summary of Institutional Annual Reports, 2002-03*, be approved and forwarded to the General Assembly's Joint Legislative Education Oversight Committee.

**Report to the
2004 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
2002-03**

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

November 14, 2003

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 2002-03 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, due to the state's fiscal condition, the UNC constituent institutions were required to contribute \$79.7 million (5.05% of their state appropriations) during 2002-03 to offset the budget shortfall. No funds were allowed to be carried forward into the 2003-04 fiscal year.
- One-time reallocations of \$127.3 million from lapsed salary funds and \$37.3 million from other sources and recurring reallocations of \$30.7 million were made to carry out management initiatives on the campuses. These amounts represent 5.54%, 1.62%, and 1.33% 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.
- 309 teaching (of approximately 10,000 total) and 284 non-teaching positions were reported as being vacant for nine months or more during fiscal year 2002-03.
- During the 2002-03 fiscal year, 6,824 purchases totaling \$204.7 million were made on the campuses between the old benchmark of \$10,000 and the increased benchmarks, which ranged from \$35,000 to \$250,000. 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 the 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
2002-03

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 2002-03 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. In fiscal year 2001-02, UNC constituent institutions were required to contribute \$144.1 million (9.06% of State appropriations). The State's continuing dire fiscal condition required that Chancellors revert substantial appropriations to the General Fund. In 2002-03, \$79.7 million (5.05%) was reverted by UNC institutions to the General Fund. No funds were allowed to be carried forward into the 2003-04 fiscal year.

Fiscal Savings. As already indicated, a total of \$79.7 million was reverted as required to the State's General Fund. These funds constitute University savings that were used by the State to address the State's economic crisis. If these funds had not been required to revert to the State, UNC institutions would have had these funds available to address additional needs such as to provide additional support to academic departments and libraries, fund information technology improvements, supplement faculty recruitment activities, and make much-needed repairs and renovations to facilities. These lost opportunities decrease the effectiveness of management flexibility on the campuses.

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 2002-03 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.

Appalachian State University was able to use management flexibility to bulk purchase 81 desktop computers, at a savings of \$15,000. North Carolina Agricultural and Technical State University was able to save \$495,000 by employing temporary workers in some areas and outsourcing other work which would have previously be done through the hiring of permanent staff or overtime payments. Similarly, UNC-Chapel Hill - Academic Affairs units saved \$989,623 by the employment of temporary employees, students, contract employees and dual employment, which enabled the campus to provide the necessary service without creating permanent positions. In addition, Western Carolina University was able to take advantage of several savings opportunities through critical timing and bulk purchases that were a direct result of management flexibility. WCU saved \$800,000 in the purchase of equipment for the Work Force Development Center, as well as \$187,194 in bulk purchases of computers for classrooms, labs, and offices. Large-scale purchasing also saved Winston Salem State University approximately \$18,595 in the purchase of systems and equipment necessary for its remote access project.

Management Initiatives. During 2002-03, campuses reallocated \$164.6 million on a one-time basis and \$30.7 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, upgrading classrooms and labs through repair and renovations as well as equipment purchases, enhancing physical facilities and their operations, strengthening infrastructure, and expanding computing and telecommunications capabilities. On a permanent basis, there was an increased focus on strengthening undergraduate instruction and graduation rates, graduate instruction and research and improving infrastructure. Accommodating recent budget cuts has added a significant challenge to budget administration.

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. This involvement has permitted a number of expenditure decisions to be made at the program level in the organization, often by 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 general, release from the rigid time frame of the fiscal year gives the campuses an opportunity for multi-year budget planning; however, the State's poor economic situation eliminated the ability to carry forward balances from 2002-03 to 2003-04.

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.

Fourteen of the sixteen UNC constituent institutions have agreed to collaborate on moving to new, more efficient, administrative computer systems to better support the academic, research, and public service missions of the campuses. This collaboration makes possible more favorable pricing, and facilitates sharing between campuses as they prepare to implement the systems. Reallocations for 2002-03 reflect related planning and equipment acquisitions at several of the UNC institutions.

Management flexibility has enabled the constituent institutions to respond to unforeseen circumstances, including the need to meet mandatory reversion requirements related to the current financial condition of the State of North Carolina. Furthermore, the availability of management flexibility has been crucial as the campuses experience these mandatory reversions simultaneously with continued budget reductions. The campuses, through flexibility, have been able 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 their under-funded utilities budgets. In recent years, some campuses have found that their rapid growth along with utilities rate increases have outpaced allowable inflationary increases in the University's continuation budget. Likewise, absent inflationary increases in line items for library collections purchases, but faced with increasing costs of acquisitions, many campuses have used flexibility to prioritize funds for the maintenance and upgrading of their library collections.

Management flexibility has also been vitally important to successful implementation of the 2000 Higher Education Bonds. Due to the campuses' ability to reallocate funding to meet priorities, it has been possible to fund staffing, equipment, and supplies for the new buildings that are constantly coming online. Furthermore, since the campuses have had no meaningful state funding for repairs and renovations since 2001, many campuses reallocated funds from lapsed salaries to fund necessary repairs and minor renovations.

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. 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 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. This ability also proved critical to the institutions during 2002-03, as they were required to revert more than \$79 million 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 Division of Purchase and Contract in the Department of Administration. Under flexibility, the threshold amount was increased to a maximum of \$250,000. Due to the previous success of the purchasing flexibility, the 2003 General Assembly approved an additional increase of this cap to \$500,000.

During 2002-03, 6,824 purchases totaling \$204.7 million were made on the campuses between the old benchmark of \$10,000 and the increased benchmarks. This represents a 42% increase (based on number of purchase orders) over the 2001-02 fiscal year. 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 seven campuses 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 2002-03 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 2002-03 fiscal year, one-time reallocations from lapsed salary funds totaled \$127.3 million, which represented 5.54% of the authorized budget requirements of the institutions at June 30, 2003. Of these funds, \$85,285,707 (67%) were generated from lapsed teaching salaries, while \$42,021,372 (33%) were from lapsed salaries from non-teaching positions. One-time reallocations from other sources totaled \$37.3 million, which represented 1.62% of the authorized budget requirements of the institutions at June 30, 2003.

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 2002-03 fiscal year, permanent reallocations totaled \$30.7 million, which represented 1.33% of the authorized budget requirements of the institutions at June 30, 2003. Of these permanent reallocations, 516 positions were established and 490 positions were abolished for a University-wide net increase of 26 positions.

Vacant Positions. A total of 593 positions, University-wide, were vacant for nine months or more during fiscal year 2002-03. Of these, 309 were teaching and 284 non-teaching positions.

The largest number of vacant positions were those held open to meet anticipated budget reductions (169) and temporary operating needs (152); keeping these positions open enabled the campuses to meet the large (5.05%) reversion requirement for fiscal year 2002-03. A significant number of positions (127) involved recruitment problems. Other explanations for extended vacancy periods include a delayed search process (49), reorganizations/reclassifications (84) and pending/recent new management in the area (12).

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.” However, due to the State’s fiscal condition, the \$79.7 million remaining on June 30, 2003 was required to return to the State’s General Fund as reversions.

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
2002-03**

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 2002-03 are included in this report.

The 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.

Management initiatives undertaken by UNC General Administration emphasized expanding computing, telecommunication and information resources; improving administrative services infrastructure; and strengthening such targeted program areas as the Math Science Education Network, the NC Center for Nursing's Institute for Nursing Excellence, the North Carolina Center for School Leadership Development, the North Carolina Education Research Council, the North Carolina Progress Board, North Carolina Principal's Executive Program, and the North Carolina Teacher Academy. Funds were also reallocated for UNC-TV to cover the increased cost from the Department of Insurance, to establish and revise agency departmental records retention schedules in UNC Office of the President, and to fund a Disaster Preparedness Study. Total one-time reallocations of \$1,618,484 included \$958,122 of transfers from lapsed salary funds. Permanent reallocations of \$205,298 were made during fiscal year 2002-03.

During 2002-03, UNC General Administration established three positions and abolished five positions, for a net decrease of two positions. Two EPA non-teaching positions were reported as being vacant for nine months or more during 2002-03. These vacancies were held vacant in anticipation of budget reductions.

The 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
2002-03

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 2002-03 are included in this report.

Management initiatives undertaken by North Carolina School of Science and Mathematics emphasized enhancing recruitment, addressing safety concerns on campus, strengthening instruction, enhancing physical facilities and their operations, and strengthening student support services.

During 2002-03, 19 purchases totaling \$302,312 were made by NCSSM between the benchmarks of \$10,000 and \$35,000.

Total one-time reallocations of \$175,091 were entirely funded through lapsed salaries. Permanent reallocations of \$66,672 were made during 2002-03, all of which were used to support personnel-related expenditures.

During 2002-03, the North Carolina School of Science and Mathematics established two positions and abolished one position. No positions were reported as being vacant for nine months or more.

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