

PACE Recommendation – Elimination of Annual Report on Management Flexibility

The 2007 non-budget legislative agenda contained items designed to implement efficiencies within the University as recommended by the President's Advisory Committee on Efficiency and Effectiveness (PACE). One recommendation was the elimination of the Annual Report on Management Flexibility. This recommendation was included in House Bill 749 and was ratified by the General Assembly and signed into law by the Governor.

Among other items, House Bill 749 repealed G.S. 116-30.6, which directed the Board of Governors to report annually to the Joint Legislative Education Oversight Committee on the results achieved under management flexibility by the special responsibility constituent institutions. Repeal of this statute eliminates the statutory requirement for the report and requires a corresponding change in Board policy.

In 1991, the General Assembly granted the Board of Governors authority to give the institutions management flexibility to expend General Fund monies in the manner deemed to maintain and advance programs and services of the institutions. The management flexibility report was initially viewed as a necessary report to ensure institutional accountability. Since this change was made over 15 years ago, the PACE concluded that the report is no longer necessary as a tool for monitoring the effectiveness of budget flexibility. Proper internal controls and audits by both internal auditors and the State Auditor are more important than this report in ensuring that effective budget and financial management exists throughout the University. Additionally, the President is securing a review by external consultants of staffing and processes in place at the campuses to further ensure the effectiveness of campus operations. He is further creating a team of skilled technical and functional experts that will be available to address

specific problems as they arise within the University and to provide assistance to campuses to ensure that controls are in place and that systems operate effectively.

Attached is a proposed policy change which identifies the required changes in Section 600.3.1.F.3 of the Policy Manual. In accordance with the Board's procedures, the policy change is presented for Committee vote at this meeting and will be presented for approval by the Board at its next meeting.

Effective with the current reporting cycle, it is recommended that the Annual Report on Budget Flexibility be eliminated.

Adopted 09/13/91
 Amended 09/09/94
 Amended 09/08/95
 Amended 09/13/96
 Amended 05/22/97
 Amended 11/13/98
 Amended 08/13/99
 Amended 02/13/04¹
 Amended 11/12/04
 Amended 06/08/07

Selection Criteria and Operating Instructions for Special Responsibility Constituent Institutions

A. Achieving and Retaining Status as a Special Responsibility Constituent Institution

Management Staffing Standards and Internal Controls and Safeguards

1. Responsibilities of Special Responsibility Constituent Institutions

The following standards and safeguards must be met and maintained in order to receive and retain the designation as a special responsibility constituent institution.

- a. The Chancellor/Executive Director must assume personal responsibility and also establish the appropriate administrative and internal control procedures for carrying out the special delegations of authority. In this regard, the Chancellor/Executive Director must certify that the administrative capability on campus in the areas of budgeting and accounting, personnel, and purchasing, as noted in b., c., and d. below, are sufficient to carry out the increased flexibility being granted.
- b. The capability of the staff and the system of budgeting, accounting and internal controls must be sufficient to administer the increased budget flexibility given to the designated institutions.
- c. The personnel capacity, which must be exercised under the direction of appropriate administrative officials, must be available on campus to evaluate jobs, classify positions appropriately, set compensation properly, and carry out the related functions of position management at the level of authority provided by the delegation.
- d. The on-campus expertise must be available to purchase properly the equipment, supplies, and other goods and services for the institution up to the benchmark level established by the Board of Governors for the institution pursuant to G.S. 116-31.10.

¹ On February 13, 2004, the Board placed into policy changes to these criteria that it had adopted on 2/08/02 and 9/12/03.

- e. The institution must maintain its financial records in such a manner that there are no significant findings in 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.
 - f. [Repealed]
 - g. Chancellors/Executive Director may delegate the authority for approving departmental plans for expenditures authorized under budget flexibility, but may not delegate the authority below the level of the appropriate Vice Chancellor.
 - h. The Chancellors/Executive Director shall review an annual internal audit report on expenditures authorized under budget flexibility.
 - i. The Chancellor shall ensure that procedures and support systems are in place to provide for the effective operation and maintenance of all existing campus buildings and infrastructure. New facilities financed by the 2000 Higher Education Bond Program or any other sources of funds shall become a part of an effective program of preventive maintenance from the time that construction is completed. Procedures shall also be in place to assure proper accountability and safeguarding of all fixed assets and other items purchased by the University.
2. Responsibilities of the President and the Board of Governors

The President is directed to establish the administrative procedures necessary to carry out the following rules:

- a. The President and her/his staff shall 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.
- b. 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/Executive Director 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.
- c. If satisfactory progress is not made within a three-month period, the President 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.

- d. 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.
- e. The President and her/his staff, after consultation with the State Auditor, shall review and consult with 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 116-31.10. Such review and consultation must take place no less frequently than once each biennium.
- f. [Repealed]

B. Budget Administration

1. Appropriations to Special Responsibility Constituent Institutions

- a. All General Fund appropriations made by the General Assembly for continuing operations of a special responsibility constituent institution of The University of North Carolina shall be made in the form of a single sum to each budget code of the institution for each year of the fiscal period for which the appropriations are being made.
- b. Notwithstanding G.S. 143-23(a1), G.S. 143-23 (a2), G.S. 143-23(a3), and G.S. 120-76(8), each special responsibility constituent institution may expend the General Fund monies so appropriated to it in the manner deemed by the Chancellor/Executive Director to be calculated to maintain and advance the programs and services of the institutions, consistent with the directives and policies of the Board of Governors including but not limited to the following:
 - 1. A current institutional expenditure plan for each budget code must be established and maintained under the direction of the Chancellor/Executive Director.
 - 2. No action shall be taken that would materially change the capability of the institution to carry out its educational mission as defined by the Board of Governors. The Board of Governors will retain program responsibility. No actions taken should have the effect of either establishing a new academic, research, or public service program or closing such a program without the specific approval by the Board. Reallocation of academic program resources should not be made to the extent that a particular existing program is seriously weakened or effectively discontinued, or a new activity not expressly authorized by the Board of Governors is initiated.

3. Reallocations of interinstitutional program resources should not be made to the extent that campus participation in a particular program is materially weakened without specific approval by the Board.
 4. No action should be taken which would have the effect of establishing a new community service or student financial aid program without specific approval by the Board of Governors.
 5. Appropriations providing support for Distance Education/Extension degree credit instruction at off-campus locations cannot be reallocated for other purposes without specific approval by the Board of Governors.
- c. The quarterly allotment procedure established pursuant to G.S. 143-17 shall apply to the General Fund appropriations made for the current operations of each special responsibility constituent institution.
 - d. All General Fund monies so appropriated to each special responsibility constituent institution shall be recorded, reported, and audited in the same manner as are General Fund appropriations to other constituent institutions.
 - e. The preparation, presentation, and review of General Fund budget requests of special responsibility constituent institutions shall be conducted in the same manner as are requests of other constituent institutions.
2. Reversions and Carry-Forwards of Appropriations

Of the General Fund current operations appropriations credit balance remaining in each budget code of a special responsibility constituent institution, at the close of a fiscal year, any amount of the General Fund appropriations for that budget code, may be carried forward by the institution to the next fiscal year and may be used for one-time expenditures that will not impose additional financial obligations on the State. However, the amount carried forward under this section shall not exceed two and one-half percent (2 1/2%) of the General Fund appropriation. The Director of the Budget, under the authority set forth in G.S. 143-25, shall establish the General Fund current operations credit balance remaining in each budget code of each institution.

C. Personnel Administration

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.

With respect to personnel actions taken under subdivision (2) of this section, no action should have the effect of either establishing a new academic program or administrative unit or closing an existing academic or inter-institutional program or administrative unit. No action should be taken which permanently reduces the number or amount of Regular Term budgeted teaching positions supported by General Fund appropriations thereby changing the student-faculty ratio or the budgeted average teaching salary established by the Board of Governors.

Implementation of all 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.

D. Purchasing

Notwithstanding G.S. 143-53.1 or G.S. 143-53(a)(2), the expenditure benchmark for a special responsibility constituent institution with regard to competitive bid procedures and the bid value benchmark shall be an amount not greater than \$500,000. The Board shall set the benchmark for each institution from time to time. In setting an institution's benchmark, the Board shall consider the institution's overall capabilities including staff resources, purchasing compliance reviews, and audit reports. The Board shall also consult with the Director of the Division of Purchase and Contract and the Director of the Budget prior to setting the benchmark.

Institutions with an expenditure benchmark greater than \$250,000 but not greater than \$500,000 shall submit to the Division of Purchase and Contract for that Division's approval, or other action deemed necessary by the Division, a copy of all offers received and the institution's recommendation of award or other action. Notice of the Division's decision shall be sent to that institution. The institution shall then proceed with the award of contract or other action recommended by the Division.

The power and authority granted to the Board of Governors with regard to the acquisition, operation, maintenance and disposition of real and personal property and services shall be subject to, and exercised in accordance with, the provisions of Chapter 143 and 146 of the General Statutes and related sections of the North Carolina Administrative Code, except when a purchase is being made that is not covered by a State term contract and either:

- (1) The funds used to procure personal property or services are not moneys appropriated from the General Fund or received as tuition or, in the case of multiple fund sources, moneys appropriated from the General Fund or received as tuition do not exceed thirty percent (30%) of the total funds; or
- (2) The funds used to procure personal property or services are contract and grant funds or, in the case of multiple fund sources, the contract and grant funds exceed fifty percent (50%) of the total funds.

When a special responsibility constituent institution procures personal property or services under condition (1) or (2) above, the special responsibility constituent institution is delegated the authority to procure the property or services without approval by the Board of Governors, and the requirements of Chapter 143, Article 3 shall apply, except the approval or oversight of the Secretary of Administration, the State Purchasing Officer, or the Board of Awards shall not be required, regardless of dollar value.

Special responsibility constituent institutions shall have the authority to purchase equipment, materials, supplies, and services from sources other than those certified by the Secretary of Administration on term contracts, subject to the following conditions:

- (1) The purchase price, including the cost of delivery, is less than the cost under the State term contract;
- (2) The items are the same or substantially similar in quality, service, and performance as items available under State term contracts;
- (3) The cost of the purchase shall not exceed the benchmark established under G. S. 116-31.10; and
- (4) The special responsibility constituent institution notifies the Department of Administration of purchases consistently being made under this provision so that State term contracts may be improved.

E. Impact on Education

Each special responsibility constituent institution shall include in its institutional effectiveness plan those assessment measures that are determined by the Board to be measures that will assure some standard measure of student learning and development in general undergraduate education. The intent of this requirement is to measure the impact of G.S. 116–30.1 through G.S. 116–30.5, establishing and administering special responsibility constituent institutions, and their implementation on undergraduate student learning and development. The measures shall be taken from accountability reports to the Board and any other performance measures developed for this purpose by the Board.

F. Reporting Requirements

1. Monthly Report

Each designated institution must prepare a monthly operating report for each budget code in the format of the current BD–701 report. The "Authorized Budget" included in this report, which may be changed under the direction of the Chancellor/Executive Director, will show the institution's current expenditure plan. The current Chart of Accounts will be used for reporting purposes.

2. [Repealed]

3.. [Repealed] ~~Annual Report~~

~~—An annual report, and other reports as may be directed by the President, are required from each special responsibility constituent institution. The annual report must be submitted to the Office of the President by October 10 following fiscal year end, and shall include the following information:~~

- ~~a. an annual operating report in the same format as the monthly report described above~~
- ~~b. the impact on undergraduate student learning and development as demonstrated by the standard assessment measures related to this topic~~
- ~~c. fiscal savings~~
- ~~d. management initiatives undertaken~~
- ~~e. increased efficiency and effectiveness achieved, including institutional purchases under the expenditure benchmark established by the Board of Governors for the institution~~
- ~~f. other outcomes made possible by the flexibility provided~~
- ~~g. documentation of any reallocation of resources which distinguishes between one-time and permanent transfers, including the actual uses of funds reallocated during the fiscal year as a result of lapsed salaries~~
- ~~h. the actual uses of appropriations carried forward from the previous fiscal year~~
- ~~i. any additional costs incurred~~
- ~~j. a schedule of positions established and positions abolished~~
- ~~k. list of positions that were vacant for more than 9 months during the fiscal year and an explanation for the length of the vacancy~~
- ~~l. compliance certification letter to the President from each SRCI Chancellor/Executive Director~~

~~Each institution must establish the administrative procedures necessary to accumulate this information for reporting purposes.~~