

**APPENDIX B**

**Report to the  
2003 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  
2001-02**

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

**November 8, 2002**

## 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 2001-02 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 \$144.1 million (9.06% of their state appropriations) during 2001-02 to offset the budget shortfall.
- One-time reallocations of \$77.2 million from lapsed salary funds and \$34.8 million from other sources and recurring reallocations of \$26.2 million were made to carry out management initiatives on the campuses. These amounts represent 3.48%, 1.57%, and 1.18% 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 administrative infrastructure and expanding computing and telecommunications capabilities.
- 315 teaching (of approximately 10,000 total) and 340 non-teaching positions were reported as being vacant for nine months or more during fiscal year 2001-02.
- **During the 2001-02 fiscal year, 4,815 purchases totaling \$163.6 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 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 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**  
**2001-02**

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 2001-02 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 develop-

ment 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. The State's continuing dire fiscal condition required that Chancellors revert substantial appropriations to the General Fund. Reversions from UNC campuses' operating budgets totaled \$144.1 million (9.06% of State appropriations) for fiscal year 2001-02. No funds were allowed to be carried forward into the 2002-03 fiscal year.

**Fiscal Savings.** As already indicated, a total of \$144.1 million in appropriations were reverted as requested to the State's General Fund. These dollars constitute University savings that were used by the State to address the State's economic crisis.

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 2001-02 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. UNC-Chapel Hill expanded on-line access to virtual libraries, saving over \$100,000 annually on more expensive print copies. Western Carolina University reallocated funds to assemble a large microarrayer for the Physics Department; \$110,000 was saved by purchasing the design parts and assembling the equipment on campus. Winston-Salem State University completed two lighting projects that reduced their annual operating costs by \$6,600. Some initiatives produced savings that, while hard to quantify, are important. UNC-Charlotte, for example, added a vapor barrier wall system above the ceiling in the Dalton Reading Room to control humidity, which will help to preserve irreplaceable books dating back to the 1600's.

**Management Initiatives.** During 2001-02, campuses reallocated \$111.9 million on a one-time basis and \$26.2 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, enhancing physical facilities and their operations, strengthening administrative infrastructure, and expanding computing and telecommunications capabilities. On a permanent basis, there was an increased focus on strengthening undergraduate instruction and graduation rates and improving administrative 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. 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 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 2001-02 to 2002-03.

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.

Thirteen 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 2001-02 reflect related planning and equipment acquisitions at several of the UNC institutions.

In the aftermath of September 11, 2001, security measures at many of the campuses were scrutinized and strengthened. At East Carolina University, funds were reallocated to purchase equipment and supplies for identifying and responding to possible chemical agent releases. North Carolina A & T State University increased security on campus through the use of temporary and contract personnel; at UNC-Chapel Hill, two new police officer positions were established using management flexibility. In total, ten of the sixteen constituent institutions

indicated that monies had been reallocated to strengthen campus safety and security.

Diversity initiatives continue to be a priority for the campuses, demonstrating UNC's commitment to ensure that the campus community fosters and appreciates a wide variety of differences. Support was increased to North Carolina State University's Peer Mentor Program for African-American and Native American students; East Carolina University provided additional funding to assist its Student Affairs division with intercultural programs. UNC Greensboro's Race and Gender Workshops are one example of several campuses' diversity workshops; UNC Charlotte cited additional support provided to its International Admissions Office. In recognition to North Carolina's rapidly expanding Hispanic population, several institutions hired English/Spanish interpreters.

In addition to cultural diversity, the needs of non-traditional students were addressed at UNC Greensboro, which developed "Campus Connect," an on-line message board designed to integrate adult and part-time students into campus life. Campuses continue to address issues of their physically challenged student population through purchases of technology, including computers and copiers, designed specifically to meet their needs; interpreters for the deaf were also provided at many institutions.

Finally, 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.

**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. 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. This ability proved critical to the institutions during 2001-02 as they reverted more than \$144 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 Purchase and Contract Division in Raleigh. Under flexibility, the threshold amount has been increased to a maximum of \$250,000.

During 2001-02, 4,815 purchases totaling \$163.6 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.

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 all applicable rules and regulations of the Office of State Personnel under any Performance Agreement concerning employees subject to the State Personnel Act and also are subject to 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 2001-02 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 2001-02 fiscal year, one-time reallocations from lapsed salary funds totaled \$77.2 million, which represented 3.48% of the authorized budget requirements of the institutions at June 30, 2002. Of these funds, \$45,854,688 (60%) were generated from lapsed teaching salaries, while \$31,315,857 (40%) were from lapsed salaries from non-teaching positions. One-time reallocations from other sources totaled \$34.8 million, which represented 1.57% of the authorized budget requirements of the institutions at June 30, 2002.

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 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 2001-02 fiscal year, permanent reallocations totaled \$26.2 million, which represented 1.18% of the authorized budget requirements of the institutions at June 30, 2002. None of the dollars permanently reallocated involved teaching positions; \$5.6 million (2.1% of total permanent reallocations) were transfers to non-teaching positions.

**Vacant Positions.** A total of 655 positions, University-wide, were vacant for nine months or more during fiscal year 2001-02. Of these, 315 were teaching and 340 non-teaching positions.

The largest number of vacant positions were those held open to meet temporary operating needs (215) and anticipated budget reductions (152); keeping these positions open enabled the campuses to meet the large (9.06%) reversion requirement for fiscal year 2001-02. A significant number of positions (109) involved a delayed search process; as of June 30, 2002, these searches were underway.

Recruitment problems were cited as the primary reason for not filling 77 teaching and 41 non-teaching positions vacant for nine months or more. Other explanations for extended vacancy periods include reorganizations/reclassifications (36) and pending/recent new management in the area (25).

Fifty-four of reported vacant positions had been filled by June 30, 2002; an additional 74 positions were filled between July 1, 2002 and the October 2002 reporting date.

#### **Availability and Use of Appropriations Carried Forward.**

Appropriations in the amount of \$144.1 million remained unspent as of June 30, 2002. 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.” However, due to the State’s fiscal condition, all unspent appropriations were returned to the State’s General Fund as required 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  
2001-02**

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 2001-02 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 Principal's Executive Program and the Pathways program. Temporary wages to cover essential functions performed by vacant positions and support for UNC membership in the Southern Regional Education Board's Academic Common Market were also areas of focus.

Total one-time reallocations of \$2,864,458 included \$2,072,043 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 \$340,014 were made during 2001-02, most of which was used to support personnel-related expenditures.

During 2001-02, UNC General Administration established one position and abolished four positions, for a net decrease of three positions. Five positions, two EPA non-teaching and three SPA, were reported as being vacant for nine months or

more during 2001-02. 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.

**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**  
**2001-02**

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 budget flexibility for the fiscal year 2001-02 are included in this report.

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

Total one-time reallocations of \$231,470 were entirely funded through lapsed salaries. Permanent reallocations of \$464,260 were made during 2001-02, all of which were used to support personnel-related expenditures.

During 2001-02, the North Carolina School of Science and Mathematics neither established nor abolished any positions. One SPA position was reported as being vacant for nine months or more.

The North Carolina School of Science and Mathematics reported, as an additional cost of management flexibility, \$37,000 to fill the related internal audit requirement.

The North Carolina School of Science and Mathematics reported no instances of non-compliance with required rules, regulations and guidelines.