November 24, 2014

Mr. John W. Turcotte, Director
Program Evaluation Division
300 North Salisbury Street, Suite 100
Raleigh, NC 27603

Dear Mr. Turcotte:

Thank you for your operational efficiency review of The University of North Carolina (UNC) last Fall 2013. As promised in my follow-up response on December 2, 2013, I am writing to update you on the progress of ongoing and enhanced efficiency measures resulting from the report’s recommendations.

UNC continues to work on streamlining, improving, and reducing costs in campus operations. In the past twelve months we have continued our emphasis on strengthening system-level procedures, reporting, and policies and believe that this will improve consistency and enhance UNC’s operational efficiency efforts. The UNC Board of Governors adopted a Policy on Efficiency and Effectiveness for the UNC System as well as performance metrics for consistent tracking and improved accountability. We have realigned resources within General Administration to raise the focus on efficiency as well as monitor activities already put in place. While we have good work ahead of us, we are continuing to make strategic progress to benefit the students, their families, and the citizens of North Carolina. The attached report and corresponding information provides you an updated response on the recommendations in last fall’s report.

Thank you again for your staff’s dedication last year and for the opportunity to provide an update of our continuing work on operational efficiency.

Sincerely,

[Signature]

Charles E. Perusse

Attachment
Recommendation 1: The General Assembly should direct the Board of Governors (BOG) to adopt a policy that defines the vision and goals for operational efficiency.

UNC Update: In August 2014, the UNC Board of Governors adopted a Policy on Efficiency and Effectiveness for the UNC System. A copy of this policy is attached to this report.

Recommendation 2: The General Assembly should direct the University of North Carolina and its constituent institutions to develop a comprehensive approach to operational efficiency.

UNC Update: We acknowledge that a more systematic and comprehensive approach to operational efficiency is important to the success of these efforts, and we are committed to making ongoing improvements to current practices and protocols. Effective April 1, 2014, an organizational realignment was completed at General Administration to enable UNC to increase focus on efficiency and accountability efforts. This change will better enable the successful transfer of efficiency project results and accountability reporting in the future. A copy of the realignment communication is attached to this report.

Recommendation 3: The General Assembly should direct the University of North Carolina to adopt metrics identified by the Program Evaluation Division to track operational performance, use these metrics in funding decisions, and identify appropriate sources to monitor operational efficiency.

UNC Update: As outlined in detail in our five-year Strategic Plan, the President and Board of Governors are fully committed to improving and expanding operational efficiency efforts. In addition, UNC is transitioning from a campus funding model focused solely on enrollment changes to a model that also considers campus performance on key measures. The goal is to directly incentivize and reward improved performance on those key measures--in addition to and independent of enrollment changes.

In August 2014, the UNC Board of Governors adopted efficiency metrics to use in funding decisions as well as for improved transparency. General Administration, in collaboration with the campuses, is currently identifying a process for establishing and monitoring the metrics on an on-going basis. A listing of the adopted metrics is attached to this report.

Recommendation 4: The General Assembly should direct the University of North Carolina to link chancellor performance to academic and operational efficiency goals.

UNC Update: A new chancellor evaluation paradigm is under review by the President. The evaluation update included input from a cross-campus committee. Once the President indicates any final changes, a final draft will be provided to the Board of Governors for consideration because the related Board policy will have to be changed accordingly. This new evaluation is targeted to go into place effective July 1, 2015.

Recommendation 5: The General Assembly should amend state law to allow the University of North Carolina and its constituent institutions to reinvest documented savings generated from operational efficiency efforts.
UNC Update: We appreciate the PED’s recognition, as reflected in the report, that the University of North Carolina needs additional dedicated resources to implement and execute successful operational efficiencies programs. Our five-year Strategic Plan, 2013-15 state budget request, and 2015-17 state budget request call for the creation of incentives for campus efficiencies through performance funding and carry-forward reform.

Attachments:
UNC Board of Governors adopted Efficiency Policy
UNC Board of Governors adopted Efficiency Metrics
UNC FIT Organizational Changes Effective 4-1-14 Memorandum
Policy on Efficiency and Effectiveness

The Board of Governors, consistent with its responsibility for the general direction and control of the University of North Carolina, is committed to ensuring continuous improvement in the consistency, efficiency and effectiveness of the operations of the University of North Carolina system, including the constituent institutions. It shall be the policy of the Board of Governors, the University’s General Administration and the constituent institutions to identify and implement efficiencies that strengthen processes and productivity, that compete favorably with our peers and that generate cost or resource savings that may be reinvested to support key initiatives, approved by the Board of Governors, within the University’s core mission of teaching, research, and public service.

The Board of Governors delegates to the president authority and responsibility to lead the University in the identification, implementation, and realization of academic and non-academic efficiencies in any area including, but not limited to, expanded shared services, strategic sourcing, non-instructional or instructional positioning, credit hour production, information technology infrastructure, utilization of facilities, energy consumption and such other areas as recommended by the Board of Governors. The Board of Governors shall, on recommendation of the president or on its own initiative, adopt metrics to track operational performance and shall use its best efforts to ensure that the University has the resources and expertise necessary to identify and implement efficiencies. The president shall report to the Board of Governors at least annually starting with calendar year 2014 on the progress of these initiatives and identified metrics. This policy shall be implemented and applied in accordance with such regulations and guidelines as may be adopted by the president consistent with this policy.
# DRAFT List of Potential Efficiency and Effectiveness Operating Metrics

## Metrics Currently in Use

<table>
<thead>
<tr>
<th>Metric</th>
<th>Description</th>
<th>Comparison</th>
<th>Standard of Success</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Spending</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Education &amp; related (E&amp;R) spending per degree</td>
<td>Institution's spending on instruction, student services, and a proportional share of academic support, institutional support, and operations and maintenance of plant per degree conferred.</td>
<td>Public peer institutions</td>
<td>Campus spends less per degree than public peers' average.</td>
</tr>
<tr>
<td><strong>Compliance</strong></td>
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<td></td>
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<tr>
<td>2. UNC Compliance Index</td>
<td>A combined metric of several compliance measures across contracts and grants, general accounting and financial reporting, financial aid, capital assets, and student accounts.</td>
<td>Uniform standard</td>
<td>96.5% compliance</td>
</tr>
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</table>

## Additional Metrics for Consideration

<table>
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</table>
| 3. Support spending per student | Institution's spending per student FTE on:  
- Student services  
- Academic support  
- Institutional support *(recommended by PED)* | Public peer institutions | Campus spends less per FTE than public peers' average. |
| **Space Utilization** | | | |
| 4. Average weekly use of student stations | An index that looks at both hours of use and percent of student station utilization for both classroom and laboratory (lab) space. | Uniform standard | Average weekly use of 35 hours for classrooms and 20 hours for labs. 65% utilization of student stations when classrooms are in use and 75% when labs are in use. |
| **Private Fundraising** | | | |
| 5. Private Fundraising Index | An index that measures both a three-year rolling average of total giving received through private philanthropy and the annual alumni participation rate. | Campus-specific standard based on peer data | Campus meets or exceeds campus standard |
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<tr>
<td>1. Six-Year Graduation Rate</td>
<td>Percentage of first-time, full-time freshman, beginning in the fall semester, who graduate within six years.</td>
<td>Campus-specific standard based on peer data</td>
<td>Campus meets or exceeds campus standard</td>
</tr>
<tr>
<td>2. Freshman-to-Sophomore Retention Rate</td>
<td>Percentage of first-time, full-time freshman, beginning in the fall semester, who returned to their original institution the following year.</td>
<td>Campus-specific standard based on peer data</td>
<td>Campus meets or exceeds campus standard</td>
</tr>
<tr>
<td>3. Degrees Granted to Pell Grant Recipients</td>
<td>Number of degrees granted to Pell Grant recipients.</td>
<td>Campus-specific standard based on peer data</td>
<td>Campus meets or exceeds campus standard</td>
</tr>
<tr>
<td>4. Degree Efficiency</td>
<td>Undergraduate completions (including Bachelor’s degrees, Associate’s degrees, and undergraduate certifications) per 100 FTE undergraduates.</td>
<td>Campus-specific standard based on peer data</td>
<td>Campus meets or exceeds campus standard</td>
</tr>
</tbody>
</table>

### Additional Metrics for Consideration

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</tr>
</thead>
<tbody>
<tr>
<td>5. Attempted Hours to Degree</td>
<td>Average number of credit hours attempted by undergraduate degree recipients relative to the number of hours required for the degree.</td>
<td>Campus-specific standard based on peer data</td>
<td>Campus meets or exceeds campus standard</td>
</tr>
</tbody>
</table>
March 12, 2014

MEMORANDUM

TO: UNCGA and Campus Group Distribution

FROM: Charles Perusse

SUBJECT: UNC FIT Organizational Changes

The purpose of this letter is to announce an organizational realignment that will affect several areas within UNC General Administration operations. To put the realignment in context, I will provide a little background on the change and then outline what we hope to accomplish. These changes will not initiate a reduction in force and no one will lose their job; instead, it will better align resources while enabling us to increase focus on efficiency and accountability efforts for UNC.

UNC FIT Successes

In 2008, the UNC Finance Improvement and Transformation initiative (UNC FIT) was created to strengthen the financial control environment by implementing short-term process improvements while laying the groundwork for centralization of certain office financial operations. These goals were accomplished through two primary initiatives. The first initiative created the Business Process Improvement compliance function which implemented a series of process improvements in key functional areas such as contracts and grants, general accounting, financial aid, capital assets, and student accounts. The second initiative led the charge to implement a new payroll system, transitioning the nine campuses off the State’s Central Payroll system and into a Shared Services Center for their payroll processing. These successes were followed by implementing other shared services in e-procurement, financial aid verification, and soon-to-be UNC’s tuition residency determination process.
The programmatic achievements were met through the hard work and dedication of UNC FIT team members, General Administration leadership, campus leadership, UNC FIT Executive Steering Committee, campus project management officers (PMOs) and campus personnel. The business process improvement compliance effort has effectively reduced UNC annual audit findings from 58 in FY 2007 to 1 in FY 2013 and has become a normal part of operating procedures as well as part of UNC’s performance funding process. The implementation of the new payroll system is operating efficiently within a new standard shared services model, which includes a Change Advisory Board, technical architecture standards, and service level agreements. Many of our UNC successes were reported in the NC Legislative Program Evaluation Division Study documenting over $102M in savings; UNC FIT contributed to over 68% of those savings since this program’s inception.

**Strategic Alignment**

As the focus on effectiveness and efficiency has increased, the need to ensure that General Administration is best structured to continue leading efficiency efforts has also been assessed. Both UNC-GA leadership and the NC Legislative Program Evaluation Division have recommended that the University establish a more centralized and coordinated operation to manage efficiency efforts as well as establish performance metrics and accountability reporting for both system and campus level efficiency programs. To that end, an effort will be made over the next several months to transition staff into a new organizational structure to better align resources and continue focusing on increased efficiency and accountability efforts. This change will better enable the successful transfer of efficiency project results and accountability reporting into the operations of General Administration in the future.

**The Changes**

Effective April 1, 2014, the UNC Finance Improvement and Transformation initiative will become the Division of Compliance and Operational Efficiency. This division will continue reporting to me under the leadership of Ken Craig. However, in keeping with the new strategy of realigning completed operations, key changes with this reorganization include:

1. Realigning the Payroll Shared Services function to report to the Human Resources Division with Vice President William Fleming.

2. Aligning the Banner ERP Support function to report to the Information Technology Division with Vice President John Leydon.
3. The development of an Operational Efficiency Project Management Office focused on business analysis, project portfolio management, project management, and change management reporting under the Division of Compliance and Operational Efficiency.

4. The development of a Quality Management and Accountability Office focusing on quality management, risk management, and accountability reporting under the Division of Compliance and Operational Efficiency.

The Business Process Improvement compliance program will continue to be led by Lynne Sanders and report to Ken Craig. The well-equipped and skilled staff in the current structure will be better aligned to accomplish their respective roles within the on-going operations of General Administration as well as serve the UNC campuses.

**Next Steps**

Over the next few months, plans will be put in place to implement this reorganization by the end of June 2014. Based on the new organizational structure, there will no longer be a need for the UNC FIT Steering Committee. Rather, careful evaluation will be made over the next several months to better define the new efficiency governance structure along with the needs and roles of campus liaisons to align with the organization change. We are committed to the value of this structure in that its success has helped achieve many goals in the past. I wish to acknowledge the support, guidance, and leadership of the Steering Committee in optimizing University operations; it is truly appreciated.

The ERP Support Services group will continue to participate within the CIO Council / Shared Enterprise Application and Services Committee (SEASC). The Business Process Initiative will continue working directly with the campus PMO’s and subject matter experts regarding the annual monitoring program. As the new units of the Division of Compliance and Operational Efficiency are developed, opportunities for further campus participation, governance and communications will be identified and implemented.

Please do not hesitate to contact Ken Craig, William Fleming, John Leydon, or me with questions as the transition takes place.

cc: Ken Craig
William Fleming
John Leydon