August 16, 2006

Ms. Hilary C. Coman  
Project Manager  
President’s Advisory Committee on Efficiency and Effectiveness  
The University of North Carolina, General Administration  
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Dear Hilary:

This report summarizes the qualitative input received from the campus by NC State University as part of the PACE Efficiency and Effectiveness study.

NC State opened its web-based PACE qualitative survey to all faculty and staff, and received more than 450 sets of comments. Many comments and suggestions were specific to NC State’s internal operations and will provide a starting point to inform subsequent discussion and analysis on campus.

Of the comments with a broader focus, the most frequently cited sources of inefficiency - and barriers to addressing those inefficiencies -- came in a few primary realms:

- The disadvantages of being tied to the State’s personnel system  
- Low-value-added accountability and reporting requirements  
- Burdensome mandates related to facilities design and construction

Respondents also identified potential opportunities to leverage economies of scale among the University System campuses in areas such as:

- Procurement  
- Distance education  
- Information technology

Many of these comments echo the discussion from our interview. In fact, we are beginning a major review of our IT organization to improve our internal efficiency and effectiveness in this area.
Recurring Themes

Even though the Human Resources realm accounted for a relatively small percentage of total institutional expenditures, it generated by far the most feedback of all of the enabling functions – more than 100 separate comments. Overwhelmingly, the barriers identified had to do with cumbersome and inflexible classification, hiring, and pay practices, mostly attributable to State Personnel requirements.

Oversight activities also prompted a substantial amount of feedback. There was a broad sense that current accountability and reporting requirements are largely disproportionate to their value, and that such requirements needed to be evaluated from a cost/benefit perspective. It was felt that many such activities could be eliminated entirely, and that even beneficial accountability activities should be redesigned for optimal efficiency to ensure that the commitment of resources to produce them does not outweigh the benefit of the outcomes.

Related complaints and perceived barriers in the Fiscal and accounting realm were substantive and centered primarily around cumbersome procedures and purchasing requirements. Low-bidder/low-quality concerns surfaced repeatedly. State-driven budgeting processes and the limited ability to carry funds in excess of 2.5% from onetime savings across fiscal years generate a fair amount of frustration.

The Facilities realm also generated considerable feedback. In addition to the inevitable complaints about the age, general conditions, and energy-inefficiency of many campus buildings, State and/or University System regulations were perceived to generate significant barriers and inefficiencies. The budget impact of the rising cost of energy was of concern as it directs resources away from other institutional priorities. As with fiscal activities, another overarching theme was that “low-bidder” practices for facilities do not produce optimal results.

The Other Realms

The Academic Support realm did not generate significant concerns or suggestions.

Besides a general sense that it takes money to make money, the main suggestions in the Advancement realm were (a) to consider consolidation of foundation administration and investment activities, both internally on our campus and among the UNC institutions, and (b) to better target University Advancement resources toward those opportunities that leverage the most return in terms of external funding results.

With regard to Auxiliary Services, frustration continues from last year’s court decision that stripped the institution’s ability to retain parking enforcement fines, thus raising parking costs for faculty and staff. There were suggestions to evaluate outsourcing auxiliary services such as bookstore operations, motor fleet management, and dining services. Some existing restrictions, notably including the Umstead Act, were identified as significant barriers to supporting legitimate institutional outcomes.
Enrollment-related activities did not generate a significant volume of response. The primary comments had to do with streamlining; reducing redundancy; and using technology to better facilitate enrollment-related processes such as registration, course withdrawals and monitoring of degree progress. There were also calls for better financial support of top graduate students.

In the realm of External Affairs, the few comments that emerged tended to focus on encouraging electronic publication and distribution to reduce the proliferation and cost of printed communications and marketing materials, such as alumni and divisional newsletters.

The Information Technology realm did not evoke significant response about barriers to effectiveness, although several respondents noted the exponential, "insatiable" growth in demand for technology and the need for more coordination between administrative and academic computing resources. Others noted opportunities for efficiencies in areas such as telecommunications.

With regard to Sponsored Project activities, most comments centered on streamlining bureaucracy where possible (recognizing that much is federally mandated or required by the sponsoring entity) and providing better administrative support capacity, both pre- and post-award, to relieve faculty principal investigators of the burdensome administrative work that detracts from the time they spend actually conducting research.

Student Service activities generated very few comments, which included a few suggestions about improving technological capacity in support of activities in this realm.

Within the realms that generated material commentary, representative quotes from respondents are included in Attachment A.

Examples of Efficiency and Effectiveness

One PACE question elicited comments about processes, or programs, that were felt to be particularly valuable or efficient. A number of NC State initiatives were mentioned, and some of those "best-practice" concepts may present models of potential value to other campuses of the UNC System. Specifically, many positive comments centered on NC State's progressive online systems for approvals, routing, reporting, and accountability; innovative support programs for undergraduates; support structures for economic development, technology transfer, patent development and business incubation; and various development and recognition programs for faculty and staff.

Those are highlighted in comments included in Attachment B.
General Comments and Observations

It may seem rational that reducing institutional resources committed to administrative ("enabling") realms would necessarily permit redirection of those resources to "core" realms. However, there is a critical difference between "reducing resources dedicated to administrative activities" and "reducing administrative costs." If an organization only reduces its administrative allocations, without reducing the drivers behind those costs, it is not "reducing" administrative cost — it is merely "shifting" administrative effort (generally from efficient, specialized professional and support staff) directly to faculty themselves. The result is less — not more — efficient use of "core" resources, and far less — rather than more — faculty time and effort available for the core missions of teaching, research, and public outreach. To rid the University of real administrative cost, we must rid the University of real administrative burden. As noted in various sample comments herein, our faculty members already experience that convoluted effect.

PACE members, particularly those from the corporate sector, may benefit from full disclosure of UNC institutional budget realities over the past 15 years. It is important to understand that UNC institutions have not received inflationary operating dollars despite regular increases in the costs of doing business.

In the last ten years, NC State has returned to the State of North Carolina more than $45 million as permanent, ongoing budget reductions — and in excess of $80 million in one-time budget reversions, each of which has inevitably been absorbed disproportionately on the "administrative" side of the house in order to preserve as much resource allocation to core activities as possible. These are resource losses during the same period that the consumer price index (CPI) increased more than 26% — and the higher education price index (HEPI) increased in excess of 45%.

At some point, any organization reaches a tipping point where it can no longer absorb more cost (such as 54% utility increases in the past 5 years) merely by "cutting fat." While there are almost certainly pockets of inefficiency here and there, most institutions have been cutting into core for years.

The University of North Carolina system is one of the State’s crown jewels. It is THE major economic driver in the State, but it cannot sustain excellence with mediocre resource commitment.

Chancellor Dubois at UNC-Charlotte submitted a thoughtful set of follow-up considerations dated June 30, 2006. It is noteworthy that, independently, NC State’s qualitative survey evoked many perceptions of inefficiencies, barriers, and frustrations identical to those articulated by Chancellor Dubois. These independent corroborations reveal compelling evidence of consensus around a number of systemic, overarching, challenges that face the University System -- issues which PACE, campus and UNC leadership would be well-served to tackle decisively. We endorse the set of opportunities outlined in his letter and believe there is substantial efficiency to be gained in addressing these examples.
NC State is appreciative of the opportunity to participate in the PACE process. We believe that feedback from participants targeted at the campus level will illuminate potential efficiency and effectiveness improvements on our own campus, and we are optimistic that the System-wide PACE project will lead to substantive enhancements in our ability to provide the most effective and efficient teaching, research, and outreach to our students and our State. We look forward to continuing these efforts.

Sincerely,

James L. Oblinger
Chancellor

JLO/am

cc: President Erskine B. Bowles
    PACE Chair Krista Tillman
    Executive Vice Chancellor and Provost Larry A. Nielsen
    Vice Chancellor Charles D. Leffler
    Campus PACE Advisory Committee Members
ATTACHMENT A
NC STATE UNIVERSITY

EXAMPLE COMMENTS SUBMITTED BY CAMPUS

Human Resources

- I have only one message. The State Personnel Act is killing us in the university. We cannot hire good people and keep them. We cannot get rid of poor performers. Thus lack of good staff is the main barrier to any improvements on our campuses. We cannot possibly compete with the Dukes of the world for grants, because we faculty end up doing all the minutiae that staff do in other (private, at least) universities.

- A fresh approach to market based wages and benefits. This will always be an ongoing issue with all employees so long as State wages are not competitive with the markets-at-large. We need to find a way to limit and reduce the annual attrition rate.

- A more flexible SPA employment system, allowing good performers to be rewarded and bad performers to be dismissed or disciplined in a timely manner with a reasonable level of documentation.

- A more flexible means to reclassify positions to enable us to reward excellent performance and more importantly, to retain well qualified staff.

- Better pay, benefits, raises for existing employees so that they remain longer in positions. As soon as we have someone good, they move on to something else, and we must spend time, effort, and money all over again in recruiting and training.

- Change the current classification system for SPA employees--people cannot advance unless their position is redefined--this means that as staff gain skills, they go [elsewhere] for higher pay; all the time and effort that you put into training goes to another program.

- Currently I work in a department that wishes to pay me more but HR [can] not approve an increase. I believe that if my supervisor wishes to pay me what she believes I am worth then that should be OK. I believe that the current classification system hurts those departments that want to reward their employees.

- Make termination payout less generous. State service is much more generous than private sector, making it harder to terminate poor employees.
• In the words of President Bowles (NC State Faculty Meeting Spring '06): Pay people what they are worth..." A classification system that is not funded and cannot reward people is demeaning and undermining.

• Have some money based on merit to reward harder working employees who make an effort to improve themselves and their department for the enrichment of the State of NC. To my knowledge, there isn't money to reward these hard working individuals and the State loses a valuable resource.

• Major issues with human resources are twofold. 1.) Extensive evaluations that do not link to the ability to give raises. Our staff members are all extramurally supported from funds with a less than 5-10% success rate. Yet when we want to give raises, equity issues take hold and compare our techs with those in labs that have no competitive funding. 2.) When legislature gives two weeks "free vacation" it essentially removes two weeks of "billable hours" for those working on grants. Decreases productivity.

• The biggest problem we face in recruitment is our lousy health care. I pay much, much more--and receive less support--than I've ever paid in four previous jobs with public universities. The current system of structuring payment so that adding a single spouse puts one in the highest of all categories, and requiring any health service provider to operate in all NC counties, substantially limits our ability to recruit and retain top faculty. Health care options that only pay 80% have large deductibles, and high payments for families are really problematic.

• The current classification system for SPA employees doesn't fit university jobs very well. It keeps us from hiring or rewarding the best people. The university system should be able to develop its own classification system.

• When everyone receives the same percentage annual pay increase, it creates an atmosphere of mediocrity. What incentives exist for really great and valuable employees? While we certainly have many great and valuable employees who continue to function at high quality levels despite the lack of merit pay - long-term ability to attract and retain these employees is seriously jeopardized. This fact is evident when a long-term valuable employee leaves, we frequently pay the new inexperienced employee comparable pay because we cannot attract anyone otherwise.

• The process to terminate an ineffective employee is long and arduous. Many people simply accept the employee as less-than-effective because the termination process is too burdensome. While it is appropriate to have grievance processes to ensure that people are not mistreated or discriminated against, we use far too many resources in handling the small percentage of "bad apples" that always seem to be using the system.
• Longevity pay should be eliminated. Paying someone for just "being here" makes no sense.

• To attract and retain the caliber of staff now needed to support the "state of the art" systems we have implemented, we need to be able to compete with the Triangle in salary and benefits. Career banding has been helpful for IT positions but until we have the resources to truly compete from a salary/benefits perspective, we will continue to hire people, train them, then watch them leave for much more lucrative jobs. The days of being able to work just 40 hours a week, which is what used to attract many quality individuals, are gone. If you're expected to work 50+ hours a week, why not make $25,000 more a year in the private industry (that's the actual increase received by the last of our staff members to leave)?

• The Office of State Personnel is superfluous. Job descriptions at the State level haven't been updated in 20 years. We waste an incredible amount of time justifying salary offers, often mixed by OSP, even when offers are lower than the candidate's current salary.

Oversight

• Reduce reports required. It seems we currently have diminishing returns on the reports and other accountability mechanisms. If we could stop doing so many routine reports but at the same time increase the consequences of non-compliance (and have serious consequences) we could do better. As it is now, we make the +98% honest, competent employees do many things to make sure we catch/stop the very few bad ones. This requires that we take a little risk, but it will gain us a lot of employees' time and their morale will increase, as the message will be "we trust you, until you show us otherwise."

• Budget accountability activities are generally in response to general statutes or policy requirements or institutional procedures. Just as we look for continual improvements in all aspects, make accountability reporting part of the continuous improvement process. At the system level or within our own institution, set up an evaluative process to critically review the need for existing accountability exercises with the perspective "less is more". When we have accountability exercises, they should truly measure and accurately represent the effort.

• On budget issues, for example, reports have been generated over the last few years (Additional Pay Report, Vacancy Reports, BD-119, Institutional Trust Fund Report, Annual Fee report, Duplicate Invoice Report, Lapsed Salary Report, Unallowable Cost Report, etc.). Each one is motivated by a worthwhile goal, but the cumulative effect is time-consuming and spirit crushing.
• Budget within the State of North Carolina is micro-managed at the State level. Detail at budget code, purpose code, and account code is not unreasonable, but the restriction of movement between is too restrictive. The budget process to develop and manage budgets such as the expansion and continuation budgets is not conducive to directing resources at institutional needs. The budget process limits the scope of budgetary issues by pre-defining what budget issues will be considered. Within these predefined areas, the process requires an overkill of information beyond purpose and account code information, to the extent of listing individual equipment purchases such as microscopes and lawn mowers. Instead of an all-inclusive discussion on fiscal priorities, budget requests are mired in minutia and many critical, strategic issues are excluded because the process is such a hindrance. We spend so much time on each leaf of each tree that we can no longer envision the forest.

• We need to develop a system of accountability that recognizes real risk. Currently our controls are established to try and identify ALL risk rather than more substantive risk. Consequently we spend excessive time trying to prevent double payment of $10 rather than inappropriate payment of $10,000. It is difficult for materiality to enter the picture when the media and the general public believe that all risk/waste in the public sector should be prevented. While this is a noble goal, more efficient use of public resources could be attained if we recognized that the public penalty for a small error should be corrective not punitive. We kill gnats with sledgehammers and increase inefficiency.

**Fiscal Activities**

• The requirements for purchasing or reimbursement for small purchases made for instructional or research purposes far exceed federal requirements and require much more time and effort than needed. Streamlining purchasing and reimbursements to follow federal...models would greatly reduce wasted time.

• Less cumbersome purchasing procedures, particularly in the area of contracting for services. At another major university where I was employed in another state, letters of agreement were generally sufficient...to work with consultants. In over 15 years, no significant legal problems resulted from this practice. In the UNC system, it seems that every single minor activity requires a contract and that signature authority is higher than it needs to be.

• Elimination of the policy of awarding contracts to the lowest bidder. It appears to me that the University has wasted money many times over trying to repair or improve shoddy work when buildings are originally constructed with poor/defective quality, design, etc. Also, office supplies are to be purchased from the vendors who were awarded contracts with the State when there are other vendors with lower prices on products most often used.
• Budget within the state of North Carolina is micro-managed at the state level. Detail at budget code, purpose code, and account code is not unreasonable, but the restriction of movement between is too restrictive. I recommend a System-wide effort to expand flexibility beyond the existing framework to enable resource deployment based on critical needs, not driven by regulatory limitations.

• The requirement of the State Controller and State Budget office to have every agency submit cash requisitions for funding based on daily expenses/deposits in order to cover vouchers and payroll items is a redundant exercise. This control of daily dollars is overkill in maintaining the State’s investments and requires extra staff at each agency to prepare and monitor the cash requisition process. The system is outdated for the input of the request and is inadequate for tracking status of request to total funding. The requirement to continually request each dollar again after it is appropriated biennially, then annually, by the legislature, allocated quarterly by the State Budget Division, controlled monthly by reporting, and then place a daily control on the entire process is extra work on the State Offices as well as every agency of the State.

• In my opinion, not having [more] budgetary carryover capacity, on a regular basis, is a huge disincentive. Why is it that saving money, and being thoughtful about spending, is a sign that you have too much money in a unit? That does not lead to good spending practices. In a family budget, you always save for large purchases that you do not need every single year. Why can’t universities do that?

• We need to be able to use extramural funding or other sources to pay for items above per diem levels. I cannot tell you how difficult it is to recruit top graduate students and faculty under conditions where per diems will not even pay for lunch at Applebee’s. I am NOT suggesting less accountability. I understand the need for that. But we need to allow exceptions to the general rules.

• We haven’t received increases in operating budgets in more than 15 years, despite the fact that operating costs continue to rise. What business in the world could continue to operate that way? If you want to gain efficiency, please have the State and the UNC-System provide funding for basic operating costs.

• Recommend the UNC System evaluate purchasing options for property insurance such as pooling and buying consortiums to enhance buying power. Catastrophic windstorm exposure to general-funded assets is an issue for various constituent universities. Create statewide tort liability claim risk fund (pooling) to fund claims against general funded depts. Increase the Tort Claim limit of $500,000.
Facilities Management

- Significantly increase the delegation of authority by Board of Governors and State of North Carolina to University Administration for real property transactions.

- Because the resources for facility upkeep, repairs, or building are very limited, the process for prioritizing projects should be more open and allow for input from non-traditional sources (facility users). In addition, funds for building renovation, such as CAPS funds, need to have some of the restrictions removed - if a building use changes dramatically over time, using funds to restore the building to its original state is a waste. The idea should be to better align facilities to their current usage, thus reducing the costs associated with building new facilities. In addition, newer designs and equipment are more energy efficient and that has to be of tantamount importance in this age of expensive energy sources.

- Eliminate the need to require prioritization of non-appropriated projects and R&R projects in the biennial request. Non-appropriated projects generally do not compete with each other (a parking lot vs. a residence hall). R&R priorities are more pertinent closer to fund allocation.

- Approvals for real estate transactions require extensive board actions and time delays. If our Centennial Campus expects to be responsive and nimble in dealing with corporate and external partners, we must receive increased delegation for leasing and opportunities for expediting transactions.

- The State’s bid system requires our using approved vendors and contractors who are often inferior in services and goods to those who are willing to provide timely service and the quality of product desired. We have just completed millions of dollars of construction remodeling, and we have wasted tens of thousands of dollars with inferior construction quality that we were required to accept.

- Elimination of the policy of awarding contracts to the lowest bidder. It appears to me that the University has wasted money many times over trying to repair or improve shoddy work when buildings are originally constructed with poor/defective quality, design, etc.

- Giving jobs to the low bidder does not minimize total costs! We spend far too much time fixing things that should have been done right.

- Allow a means for campuses to pay for major capital to save energy by putting all utility budgets into a trust account allowing rates that will cover these upgrades. Budgets would have to be adjusted for market shifts, [square footage] expansions and higher utilization.
Information Technology

- I just feel that the cost for telephone services is more than it should be. Since we are all online, we could have VOIP if we desired and save money on phone charges. We also need to think about being wireless in more places.

- Get rid of landlines and give everyone a cell phone.

- The mentality (which is common across most IT operations) that we all have to do things ourselves leads to inefficiencies. GA is beginning to take an active role in leading centralized efforts for things like disaster recovery backup sites, etc. but more could be done in this area. Instead, it appears that many/all of the universities are duplicating efforts when a centralized offering could save money/time. Also, moving more services to the web typically results in increases in efficiency but these types of activities take more resources than most non-IT people expect to implement and maintain. If we want to gain these kinds of efficiencies, we need to be prepared to staff accordingly.

- Explore getting involved with the Kuali Project (www.kuali.org), an initiative being led by a number of major universities with a major grant from the Mellon Foundation, to develop open source systems for their administrative software requirements. They've started with a good financial information system from Indiana University and are enhancing it, but they also have systems under development for endowment management, research administration, and electronic document approval, all specifically designed for the academic enterprise.

 Auxiliary Services

- Allow more flexibility in using private services or personal vehicles, especially for extension faculty. Eliminate the differential rates reimbursed to employees for use of their own cars on university business. The bureaucracy required to control this almost certainly costs more than the savings it generates, plus it adds inefficiency to the travel process when you have to check for a State car and get proof that a State car was not available in order to be reimbursed at the full rate.

- Due to criminal penalties in the Umstead Act, we have historically taken very conservative actions relative to anything that could be construed to compete with the private sector - especially locally. However, in a world economy where competition can come through the Internet from China, our opportunities should not be limited unreasonably.

- Change the Umstead Act to allow the Bookstore to be more competitive in advertising and online marketing.
Sponsored Projects

- Faculty should be able to focus almost entirely on the research being proposed during grant proposal preparation. Currently, the PI (principal investigator) must also deal with budget details, collecting information from co-investigators (e.g., their current and pending funding), and other non-research details. We must spend at least 50% of our time preparing the non-research portion of the proposal. This has discouraged me from writing new proposals.

- The way of the future is going to be that large-scale multidisciplinary research projects -- rather than individual-investigator research projects -- are going to be the way sponsored research is carried out. With two flagship research campuses, UNC-CH and NCSU, 25 miles apart, mechanisms should be worked out so that faculty from these and other institutions can submit applications seamlessly and both institutions can get credit and F&A can be equitably allocated if a project is funded, with no need for subcontracts (a big disincentive to working together).
ATTACHMENT B
NC STATE UNIVERSITY

EXAMPLES OF EFFICIENCY AND EFFECTIVENESS
CITED BY CAMPUS

Effective Use of Technology

- NCSU makes exceptionally good use of the Internet for posting forms, instructions, contact information, etc. This saves countless hours for everyone.

- The web-based vacation and sick leave and the web-based conflict-of-interest tracking and reporting systems were noted several times as particularly efficient and effective.

- Computerizing of systems, reporting, and delegated approvals has enhanced the sponsored research process.

- Being able to process inter-departmental transfers and travel reimbursements electronically has improved efficiency.

- The online HR job application and hiring system has been well received for SPA hiring, and, with modifications, is being adapted successfully for faculty and EPA professional positions.

- Distance Education was pointed out as a cost-effective outreach initiative that also addresses the lack of quality classroom space.

Effective Student Support

- The First Year College. This program works with undecided students to assist them in selecting a major. The efficiency of the program is demonstrated in many ways, including such measures as time to graduation, grade point averages, changes in academic major, and student satisfaction.

- The Living and Learning Villages, partnerships between academic programs and University Housing, have been well received.

- Establishment of Advising Central, a recent initiative, uses software and web technology to advise undergrads 24/7 and attracts, on average 780 visitors a day. It is one of the few nationally recognized virtual advising centers in the country.
- The First Year Inquiry program, which is designed to aid critical thinking, was lauded, as was the Undergraduate Research program, which engages undergrads in original scientific inquiry.

**Effective Support of Knowledge Transfer / Technology Transfer**

- The university’s assistance with patent issues, as well as its support for navigating the federal processes involved in employing foreign nationals were noted, both with the comments that for individuals to handle the red tape involved in the processes can be overwhelming.

- The NC State Technology Incubator was noted as a worthy program.

- The NCSU libraries were noted for their support of faculty research, the ability to access digital information, and for their movement into the top tier of university libraries.

- Efforts in support of technology transfer were noted.

**Effective Programs for Faculty & Staff**

- Career Banding was seen as a good start to align staff pay and responsibilities, and to open the door to improving the organization’s ability to hire and retain good employees.

- The University Budget Advisory Committee, a recent initiative to include faculty and staff representatives in annual and long-term budgeting processes, has been well received.

- The Opening Doors program, a diversity awareness program first promoted by the College of Agriculture and Life Sciences, is described as “an amazing program that helps people understand differing points of view.”

- Broadening the Disability Services Office from serving only students, to including faculty and staff and other aspects of the community, was noted.

- The Faculty Center for Teaching and Learning was credited.

- Campus awards for distinguished teaching, awards for staff excellence, and programs that provide seed funding for faculty research were all pointed out.

- The QuickStart program, a training program designed to introduce new administrative support staff to the business practices of the University, has been very well received, along with other HR training initiatives.
• Direct deposit of pay and employee reimbursements as a default practice was noted.

**Miscellaneous Examples**

• Campus transportation services, including a program that enables faculty, staff, and students to ride campus, city, and regional buses free of charge was noted for its contributions to reduce commute times, parking congestion, and environmental impact.

• The decision to formally close the University during the extended winter holiday break was noted as “an intelligent and effective means of saving limited utility monies.”