

PERFORMANCE AUDIT REPORT

**DEPARTMENT OF COMMUNITY COLLEGES
SYSTEM OFFICE**

APRIL 1996

TRANSMITTAL LETTER

April 15, 1996

The Honorable James B. Hunt, Jr., Governor
The Honorable Dennis A. Wicker, Lt. Governor
Dr. Lloyd V. Hackley, President, NC Community College System
Members of the State Board of Community Colleges
Members of the North Carolina General Assembly

Ladies and Gentlemen:

We have completed a performance audit of the *North Carolina Department of Community Colleges, System Office*. As provided by statute, we submit this report for your consideration.

The objectives of the audit were to evaluate the current organizational structure and operational procedures of the System Office and offer recommendations for refinement and improvement. Based on our review, we believe the current organizational structure of the System Office is effective and offers the services needed by the individual community colleges. We have, however, identified some organizational refinements and operational issues which the President and the State Board need to address to assure efficient and effective System operations.

This report consists of an executive summary, background information, and audit findings and recommendations. The President has reviewed a draft copy of this report, and his written comments are included.

We wish to express our appreciation to Dr. Hackley, the System Office staff, the members of the State Board of Community Colleges, and individuals in the various community colleges for the courtesy and cooperation extended to us during the audit.

Respectively submitted,



Ralph Campbell, Jr.
State Auditor

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EXECUTIVE SUMMARY

We have conducted a performance audit of the current organization and staffing within the System Office of the North Carolina Department of Community Colleges. The focus of our audit was to identify areas where the effectiveness and efficiency of the System Office operations could be improved. The report is directed toward those areas where we feel improvements can be achieved and is not intended to imply that there are not many commendable aspects of the current operations of the System Office.

Using data provided by the System President and his staff, we determined that the System Office has a total of 174 positions for the 1995-96 fiscal year. Our organizational findings and recommendations are directed at these positions. During the audit, we also identified a number of operational issues which we feel are adversely affecting the System Office's operations.

FINDINGS

- Total positions for the System Office have decreased from a high of 239 in 1990 to a low of 174 in 1996. (p. 10)
- The changing role of the System Office needs to be further defined and made known throughout the System. (p. 25)
- There is a need for a comprehensive classification study of the positions in the System Office. (p. 26)
- The System Office does not have a systematic plan for identifying and training personnel to fill key positions. (p. 27)
- Refinements to the organizational structure should further enhance operations. (p. 28)
- The role of the State Board of Community Colleges needs to be clearly defined. (p. 30)
- Accountability for financial operations should be placed at the individual community college level, where practical. (p. 30)
- The Community College System is placed at a disadvantage due to a lack of adequate technology equipment and programs. (p. 32)
- The UNIX conversion was not reviewed and approved by the Information Resource Management Commission. (p. 34)
- The System Office is currently supporting duplicate databases. (p.35)

EXECUTIVE SUMMARY (CONCLUDED)

Additionally, we identified a number of issues outside the scope of this audit which we feel need to have further study and review. (p. 37) These are:

- The funding formula and FTE (full-time equivalent) computation
- Proper placement of the proprietary schools
- Proper placement of the North Carolina Center for Applied Textile Technology

As required by G.S. §147-64.6(c)(13), the System President was provided a draft report for his review and comment. His comments are included in their entirety as Appendix A, page 39.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

Overview

In February 1995, Dr. Lloyd V. Hackley, President of the North Carolina Community College System, requested that the Office of the State Auditor conduct a performance audit on the Department of Community Colleges (**System Office**). During the period March 29, 1995, through June 15, 1995, we conducted field work for this audit. At that point in the audit process and after careful review, Dr. Hackley and management of the Office of the State Auditor mutually agreed to a suspension of the audit until the System Office had the opportunity to obtain workload statistics, as well as fill key management positions and initiate a reorganization plan of the new administration. Also, the suspension allowed the audit to evaluate the new organization. It was determined that the evaluation of the new organizational structure, along with other information provided in the audit, would be more relevant and beneficial to the future effectiveness of the North Carolina Community College System.

In January, 1996, the performance audit of the System Office was resumed. The objectives and scope of the audit remained constant and are described below. In order to conclude the audit, we revisited the preliminary issues identified in June, 1995, to determine the current status and to identify any significant changes in organizational structure and operational procedures since that time. This report summarizes our findings and recommendations for the System Office for the work begun in 1995 and concluded in 1996.

Objectives

The objectives of the audit were to analyze the current organization, to identify the functions and responsibilities of the various sections, to evaluate and determine the necessary staffing levels for optimal efficiency and effectiveness, and to determine the effectiveness of the placement of each section within the current organization. During the review, we also identified operational issues which need to be addressed. The audit was conducted in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States.

Scope

The scope of the audit included an examination of the legislative responsibilities and operational procedures of the State Board of Community Colleges and its administrative arm, the Department of Community Colleges.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY (CONCLUDED)

Methodology

To evaluate the organizational structure, we obtained organizational charts for the structure in place prior to February, 1995, the President's proposed organizational chart from February, 1995, the organizational structure which was in place in March, 1995 and the current organizational chart dated January, 1996. Additionally, we examined payroll data, and job descriptions, where available, for each position. We examined organizational and staffing changes, and a representative sample of personnel files. We conducted in-depth interviews with a representative sample of the staff in each division to determine the duties and functional roles assigned to each position. The reported duties and responsibilities and actual reporting lines were then compared to the responsibilities and lines of authority as shown on the organizational chart to assess the effectiveness of the placement of each division within the current organization.

To assess the effectiveness and efficiency of the System Office and assist in determining needed services, we surveyed a representative sample of individuals at the community colleges in April, 1995. The individuals surveyed have contact, on an as needed basis, with the different divisions within the System Office. This information was used by the audit team in reaching its conclusions. We also interviewed members of the State Board of Community Colleges, the President of the North Carolina Association of Community College Trustees, the Chairman of the North Carolina Association of Community College Presidents, and representatives of the North Carolina Comprehensive Community College Student Government Association. In all, we interviewed some 188 individuals spanning the time covered by the audit.

Our review also included an examination of various internal and external reports on the operations of the system. Lastly, we conducted a research review to determine organizational placement of the System Office functions and current trends in program delivery in other states.

BACKGROUND INFORMATION

HISTORICAL

In 1957, the General Assembly adopted the first Community College Act and provided funding for community colleges (public junior colleges) and a separate statewide system of industrial education centers. These centers were to train adults and selected high school students in skills needed by industry. In 1962, the *Governor's Commission on Education Beyond High School* recommended the consolidation of the two types of institutions. The recommendation also stated that the governing entities would be the State Board of Education and the local boards of trustees. In 1963, the General Assembly enacted into law G.S. §115A, which provided for the establishment of a Department of Community Colleges under the State Board of Education. G.S. §115A was later recodified as G.S. §115D. From 1963 through 1995, the System has had six presidents:

I.E. Ready	1963 - 1971
Ben E. Fountain, Jr.	1971 - 1978
Charles R. Holloman (Interim)	1978 - 1979
Larry J. Blake	1979 - 1983
Robert W. Scott	1983 - 1995
Lloyd V. Hackley	1995 - present

In 1979, the General Assembly enacted legislation which removed the Community College System from under the direction of the State Board of Education and placed it under the guidance of a new State Board of Community Colleges. The State Board is comprised of twenty members who are appointed by the Governor and the General Assembly, with the Lieutenant Governor and the State Treasurer serving as ex officio members. G.S. §115D-3 states in part that...

The Department of Community Colleges shall be a principal administrative department of State government under the direction of the State Board of Community Colleges and shall be separate from the free public school system of the State, the State Board of Education, and the Department of Public Instruction...

Exhibit 1, page 6, shows the counties where the 58 community colleges are located.

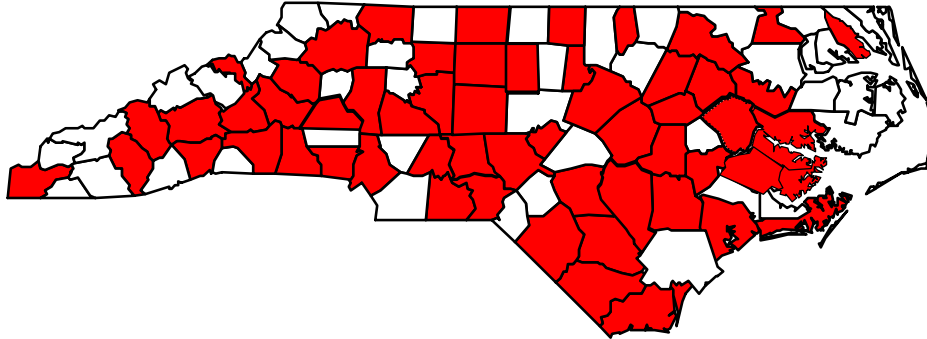
BUDGETARY DATA

The budget for FY1994-95 totaled \$484,850,422 and \$571,748,842 for FY1995-96 for the North Carolina Community College System. For FY1995-96, State Aid-Institutions (Community Colleges) represent \$557,215,726; the North Carolina Center for Applied Textile Technology represents \$2,592,399; and the System Office represents \$11,940,717 of those budgeted funds. For the last complete fiscal year (FY94-95), these funds contributed to the education of one-seventh of the adult citizens and the completion of

BACKGROUND INFORMATION (CONTINUED)

educational requirements for one-fifth of the high school students in North Carolina through the General Education Degree (GED) program.

EXHIBIT 1 NORTH CAROLINA COMMUNITY COLLEGE SYSTEM --COUNTY LOCATIONS OF MAIN CAMPUSES--



LEGEND:
SHADED COUNTIES HOST THE 58
COMMUNITY COLLEGES

CURRENT ORGANIZATIONAL STRUCTURE

Exhibit 2, page 11, depicts the organizational structure in place as of January 30, 1996. Exhibit 3, page 17, depicts the structure in place at January, 1995. Significant changes in the current organizational structure include the staffing of the System Affairs Division and the reorganization of the reporting lines in the other divisions. Considerable reorganization has taken place in the academic and student services divisions. These divisions have been combined into one and the functions have been better aligned to ensure that the division operates as a cohesive unit. Functions have been assigned to one of five sections, each headed by a director. Total authorized positions for the Office have decreased 6.5% from 186 in March, 1995, to 174 in January, 1996, and total budgeted salaries have decreased approximately \$228,000 to \$6,655,814. The organization has the same number of exempt employees (16) as in March, 1995.

Below is a brief synopsis of the major units which compose the organizational structure of the North Carolina Community College System Office as of January 30, 1996.

- **The State Board of Community Colleges:** According to G.S. §115D-3, the State Board is responsible for establishing and administering policies, standards, and

BACKGROUND INFORMATION (CONTINUED)

regulations to ensure the goals of this educational system are achieved. In addition to these responsibilities, the State Board also elects the System President.

- **The Office of the President:** The System President serves as the Chief Executive Officer of the Community College System. The President is responsible for implementing the policies and procedures promulgated by the State Board of Community Colleges. The positions which compose his immediate staff are an Executive Assistant, an Assistant Vice President on Public Policy and a Special Assistant, with four support staff.
- **Vice President For System Affairs:** This position has direct reporting responsibility to the System President. The division is closely involved with the legislative and executive branches of state government, the trustees and presidents of the community colleges, as well as other college personnel and students and the general public. This position also provides general guidance for two Associate Vice President positions, and the Directors of Governmental Affairs, Legal Affairs, and Public Affairs. The division works closely with the Assistant Vice President for Public Policy.
 - **Associate Vice President For System Affairs:** Primary responsibility for this position is to serve in the capacity of the Vice President in his absence and perform activities associated with the North Carolina Community College Foundation.
 - **Associate Vice President for Community Relations:** Primary responsibility is the establishment and implementation of a plan to improve relationships between the Community College System and the North Carolina public and private schools and universities, as well as with the private sector.
 - **Director of Public Affairs:** Responsible for providing information on the North Carolina Community College System and assistance to the System President in preparing presentations for both internal and external audiences.
 - **Director of Governmental Affairs:** Responsible for providing current information to the System President, the appropriate System Office staff, and community college presidents and trustees in regard to the activities of the General Assembly and the federal government which are pertinent to the North Carolina Community College System.
 - **Director of Legal Affairs:** Responsible for interpreting regulatory actions by the federal and state governments for the System Office and the community colleges to facilitate proper compliance.
- **Vice President for Academic and Student Services:** Responsible for all program areas including Student Development, Academic Programs, Workforce Development, Grants and Administration, and Economic Development.

BACKGROUND INFORMATION (CONTINUED)

- **Academic Program Services:** Responsible for all programs associated with curriculum, continuing education, developmental education and professional development, and instructional support functions such as library resources.
- **Student Development Services:** Responsible for functions associated with enrollment management and workforce management for students.
- **Grants and Assessment Services:** Responsible for research and identification of grant opportunities for the System and for assessment of grant programs.
- **Workforce Development Services:** Responsible for the implementation and integration of programs in the areas of basic skills, vocational education, and school-to-work programs. This section includes functions which are designed to enhance the coordination of education at the high school, community college, and university levels.
- **Economic Development Services:** Responsible for providing assistance in the administration of programs structured to enhance economic development through entrepreneurship and specific training for exact job requirements in new and expanding industries.
- **Vice President Business and Finance:** Responsible for auditing and accounting (both System Office and duties related to the community colleges at the state level), facilities services, departmental services at the System Office, and personnel services.
 - **Auditing and Accounting:** Responsible for assisting the community colleges with accounting activities, aggregating community college financial information, and providing services for the financial needs of the System Office.
 - **Facilities Services:** Responsible for providing technical assistance for community college construction contracts, community college equipment inventory functions, and System Office equipment operations.
 - **Departmental Services:** Encompasses several different functional areas including mail services, duplication services, and purchasing. The section is also responsible for the System Office receptionist and switchboard.
 - **Personnel Services:** Responsible for the implementation of the personnel functions of the System Office including maintenance of personnel files for System Office personnel, insuring proper employee recruitment, selection, and separation procedures are followed, and providing assistance on personnel situations to the community colleges

BACKGROUND INFORMATION (CONTINUED)

- **Executive Vice President/Planning and Research:** This position oversees Planning and Research, Program (FTE) Audits, Telecommunications, Special Projects and Information Services functions. Reporting to the Executive Vice President are the Directors of these divisions.
 - **Information Services:** Responsible for community college information systems programming, systems analyses, and systems operations for the PRIME and UNIX-based computer systems and for state-level computing using the IBM systems operated by the State Information Processing Services (SIPS). Also includes resource personnel who assist the System Office staff on use of computers.
 - **Telecommunications:** Coordinates the System's use of the NC Information Highway, college telecourses offered through the resources of UNC Public Television, and teleconferences. Also provides consultation services to the colleges concerning emerging information technologies.
 - **Planning and Research:** Coordinates the strategic planning process for the State Board and the System. Also responsible for accountability systems, such as critical success factors, annual program reviews, and state-level reporting. Provides consultation services to colleges concerning planning, including institutional effectiveness planning.
 - **Special Projects:** Currently, the major special project is the Reengineering Project. This multi-year project involves the following: assessing all curriculum courses and programs; developing an on-line common course library for curriculum courses; converting the semester system; and developing a regional program planning and approval process.
 - **Program Audit Section:** Responsible for auditing student reporting records at the colleges to ensure compliance with legislative and State Board requirements, with the primary objective being accurate reporting and equitable distribution of funds.

BACKGROUND INFORMATION (CONCLUDED)

Review of records at the Office of State Personnel (OSP) shows that the System Office has 174 authorized positions as of February 20, 1996. Of these, 158 are permanent full-time positions covered under the State Personnel Act (G.S. §126) and 16 are exempt positions authorized by the

POSITION TYPE	NUMBER OF POSITIONS	PERCENT OF TOTAL	TOTAL SALARIES	PERCENT OF TOTAL
Management	9	5.2%	\$ 739,718	11.1%
Professional	89	51.1%	4,016,238	60.3%
Technical	21	12.1%	621,111	9.3%
Support	55	31.6%	1,278,747	19.3%
TOTALS	174	100.0%	\$6,655,814	100.0%

State Board of Community Colleges, with 1 of the 16 being a part-time position. As of February 20, 1996, the Office had 23 vacancies. Total budgeted salaries, excluding benefits, are \$6,655,814. The table above shows the composition of the positions. For the period 1981 through 1996, total positions ranged from a high of 239 in 1990 to a low of 174 in 1996, representing a decrease of more than 27% since 1990.

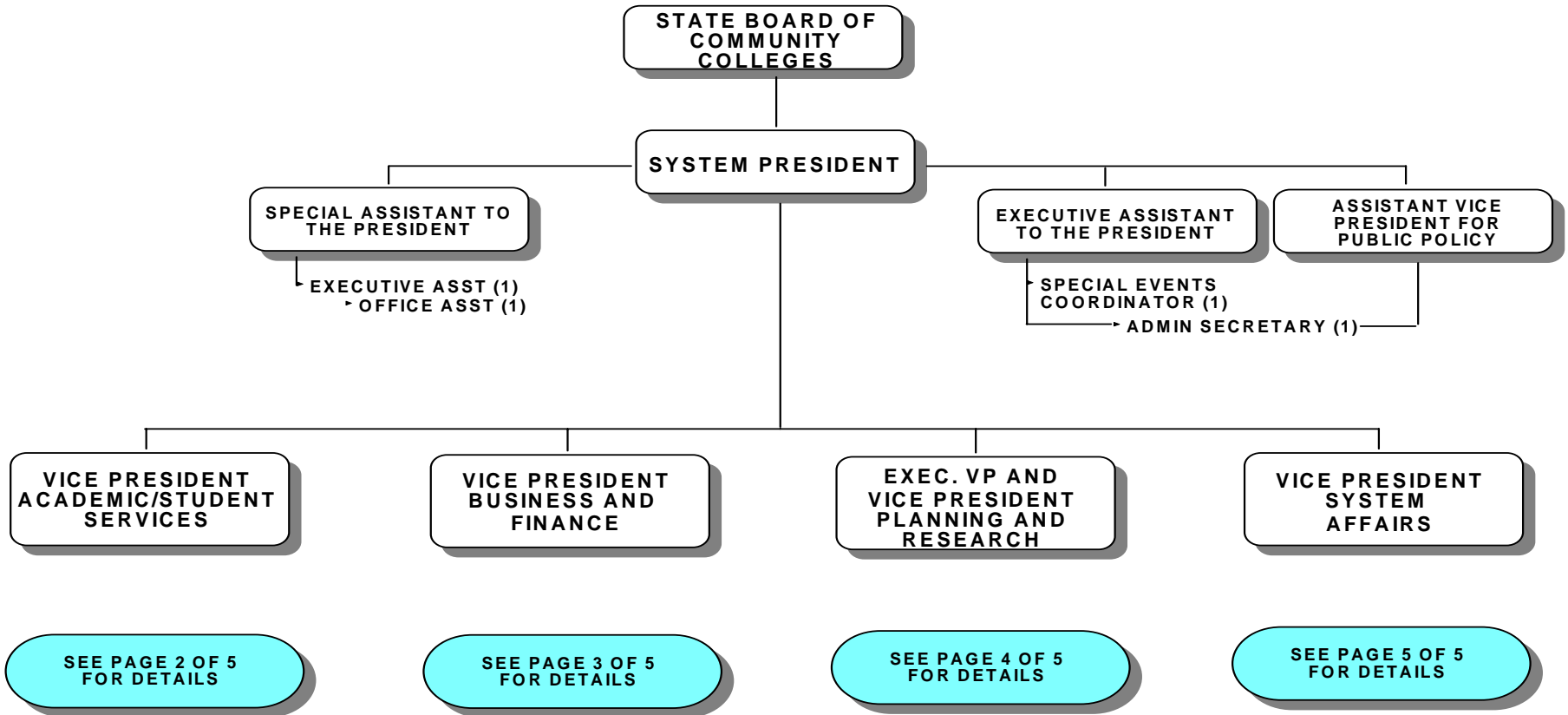
ORGANIZATIONAL STRUCTURE IN PLACE IN JANUARY, 1995

Exhibit 3, pages 17 through 24, depicts the organizational structure in place as of January 1995. This was the structure operating during the fieldwork portion of the performance audit.

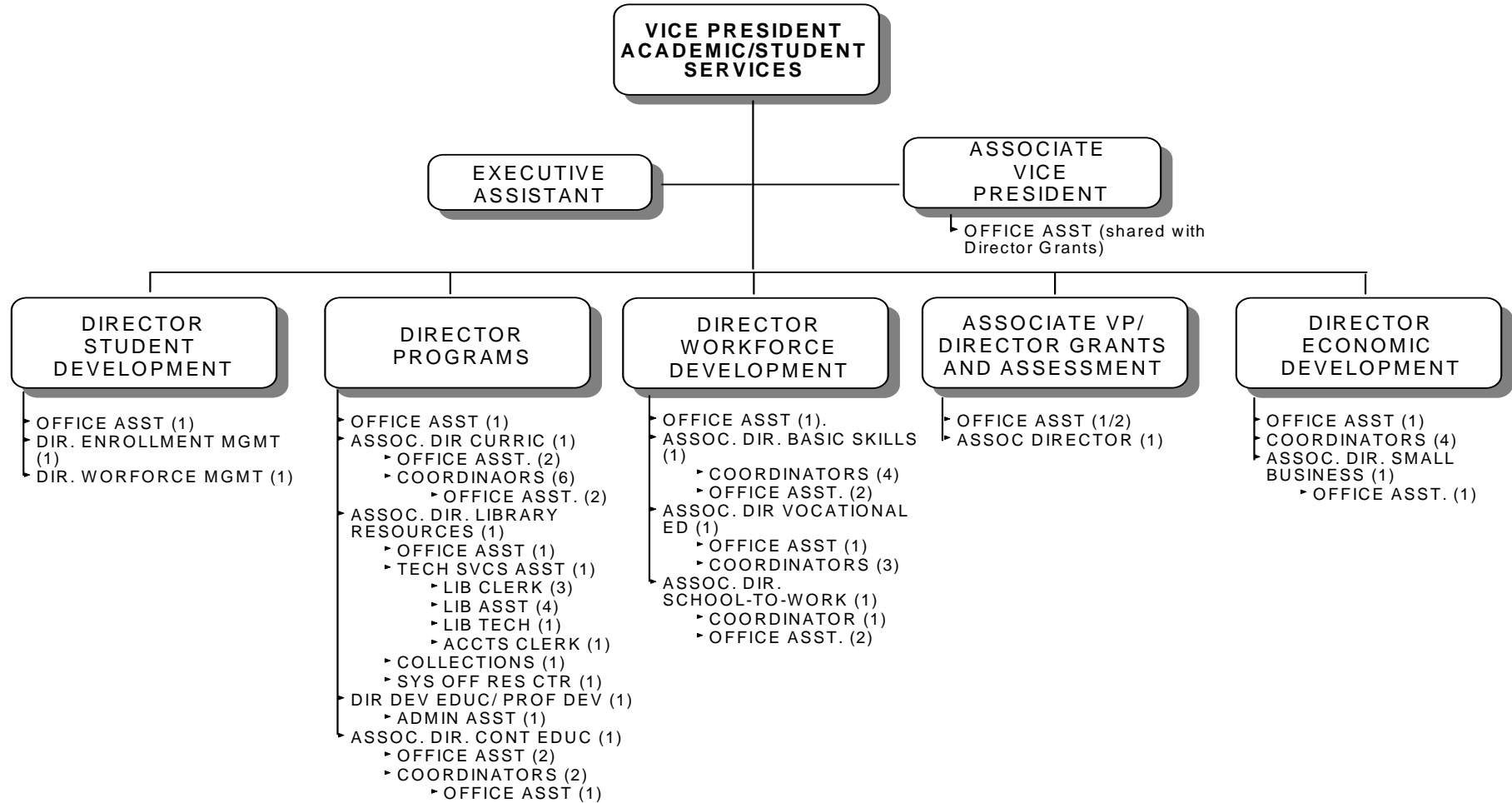
An examination of the 1994-95 budget for the Department of Community Colleges disclosed 186 authorized positions. Of these, 170 were permanent full-time positions covered under the State Personnel Act (G.S. §126) and 16 were exempt positions authorized by the State Board of Community Colleges, with 1 of the 16 being a part-time position. At March 23, 1995, 13 vacancies existed. Total budgeted salaries, excluding benefits, were \$6,884,534. The table at the right shows the composition of the positions.

POSITION TYPE	NUMBER OF POSITIONS	PERCENT OF TOTAL	TOTAL SALARIES	PERCENT OF TOTAL
Management	18	9.7%	\$1,237,693	18.0%
Professional	86	46.2%	3,694,718	53.7%
Technical	21	11.3%	537,844	7.8%
Support	61	32.8%	1,414,279	20.5%
TOTALS	186	100.0%	\$6,884,534	100.0%

EXHIBIT 2
NORTH CAROLINA DEPARTMENT OF COMMUNITY COLLEGES
ORGANIZATIONAL STRUCTURE
AS OF JANUARY 30, 1996



**EXHIBIT 2
NORTH CAROLINA DEPARTMENT OF COMMUNITY COLLEGES
ORGANIZATIONAL STRUCTURE
AS OF JANUARY 30, 1996**



**EXHIBIT 2
NORTH CAROLINA DEPARTMENT OF COMMUNITY COLLEGES
ORGANIZATIONAL STRUCTURE
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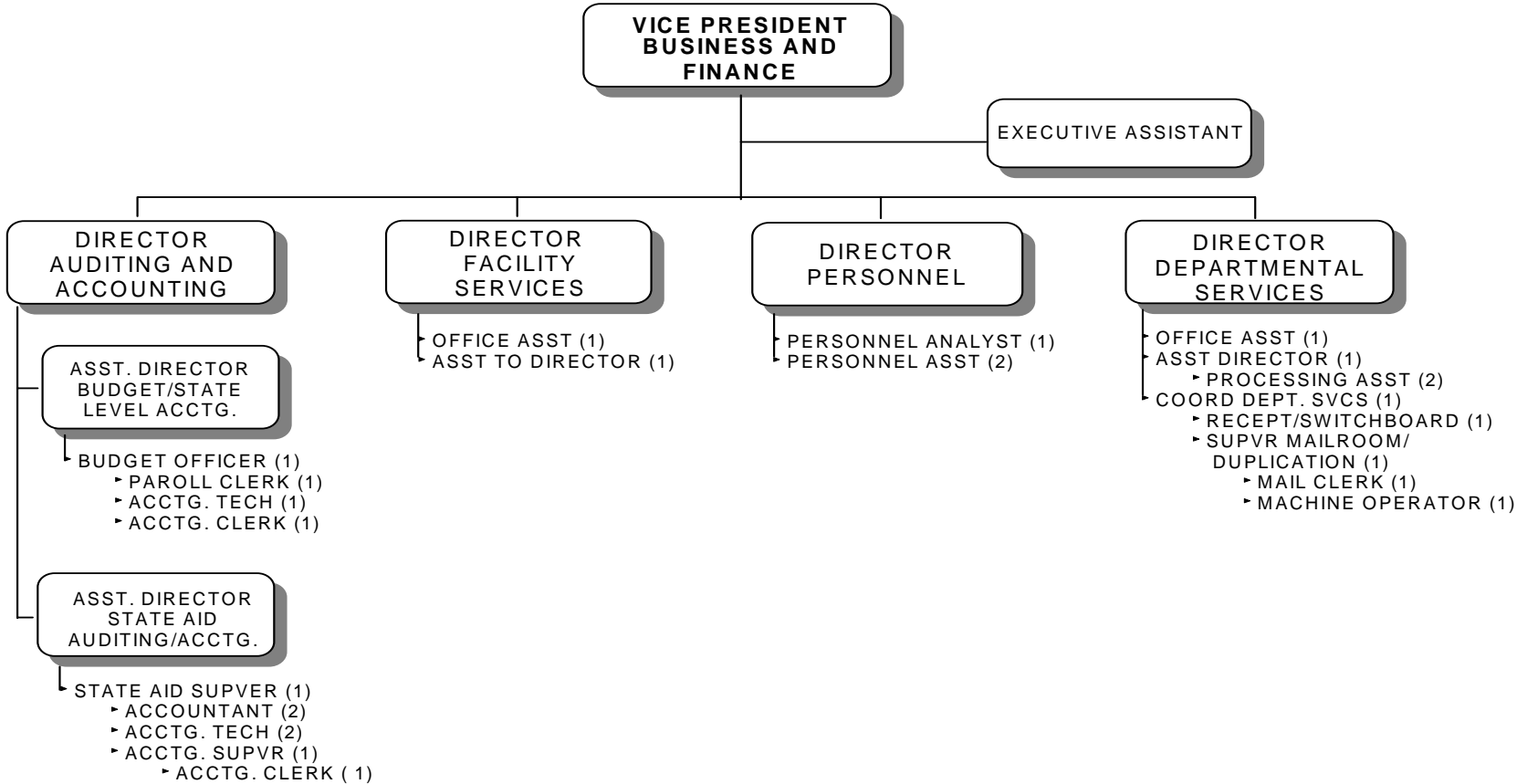
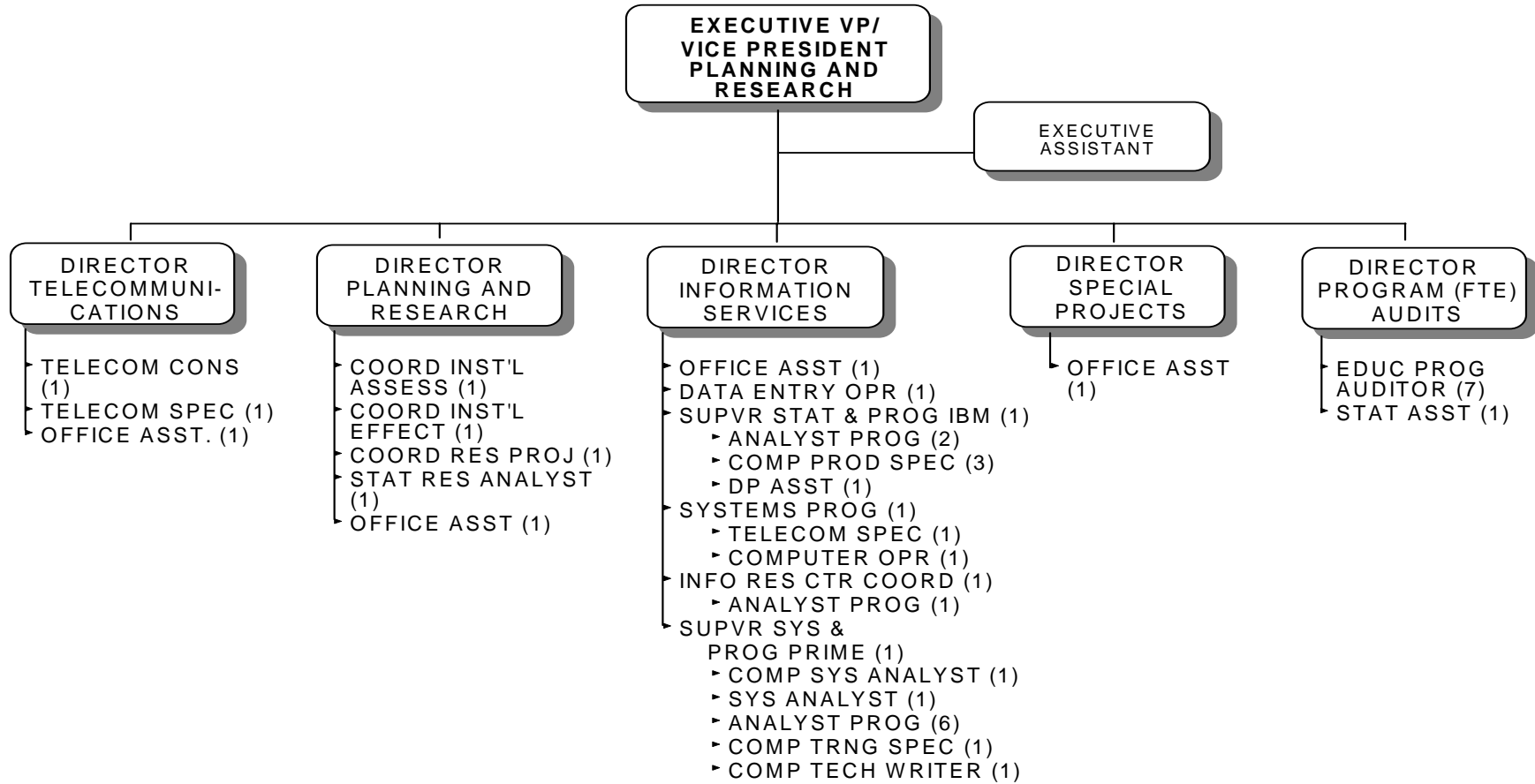
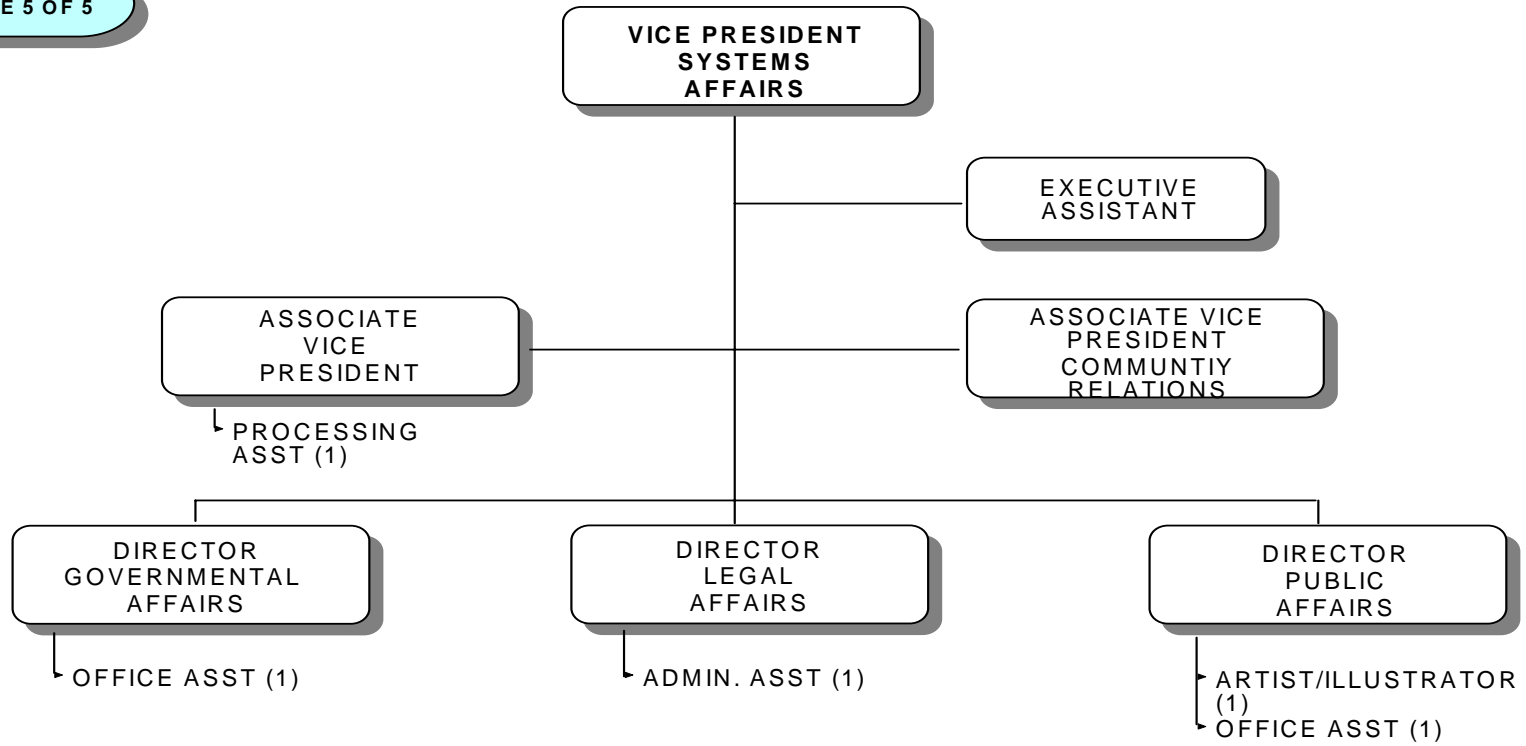


EXHIBIT 2
NORTH CAROLINA DEPARTMENT OF COMMUNITY COLLEGES
ORGANIZATIONAL STRUCTURE
AS OF JANUARY 30, 1996



**EXHIBIT 2
NORTH CAROLINA DEPARTMENT OF COMMUNITY COLLEGES
ORGANIZATIONAL STRUCTURE
AS OF JANUARY 30, 1996**

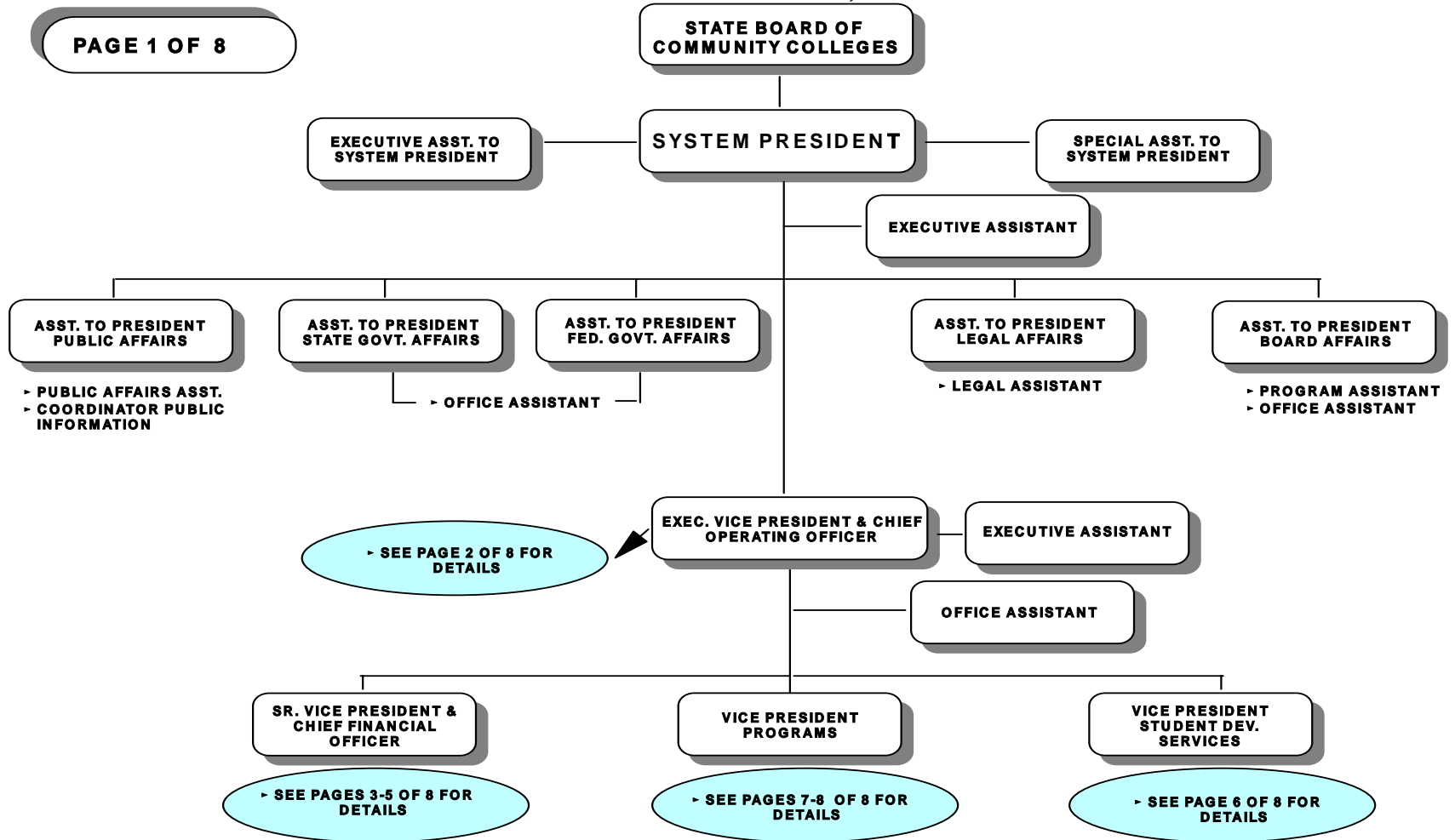
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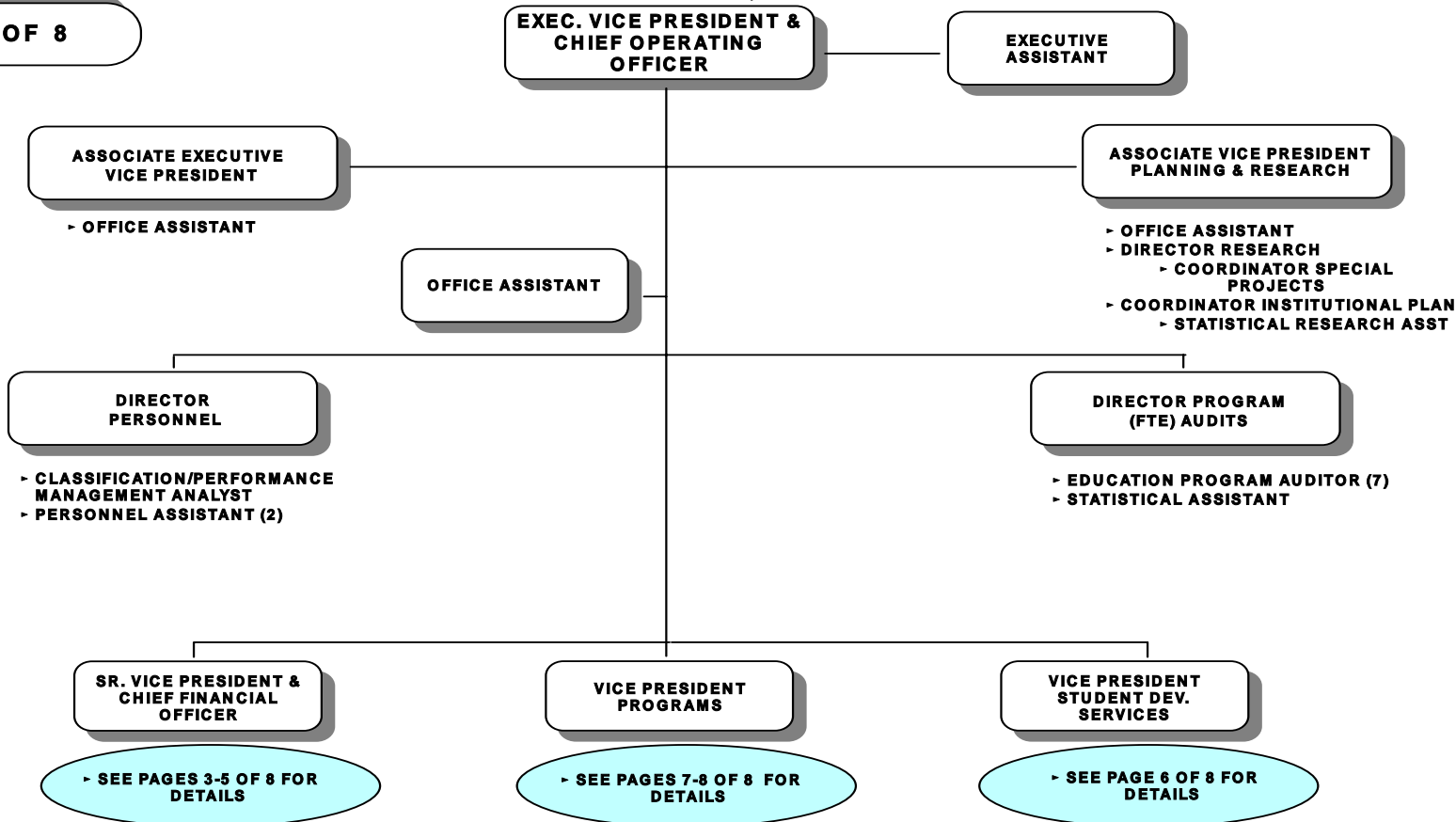
**EXHIBIT 3
DEPARTMENT OF COMMUNITY COLLEGES
ORGANIZATIONAL STRUCTURE
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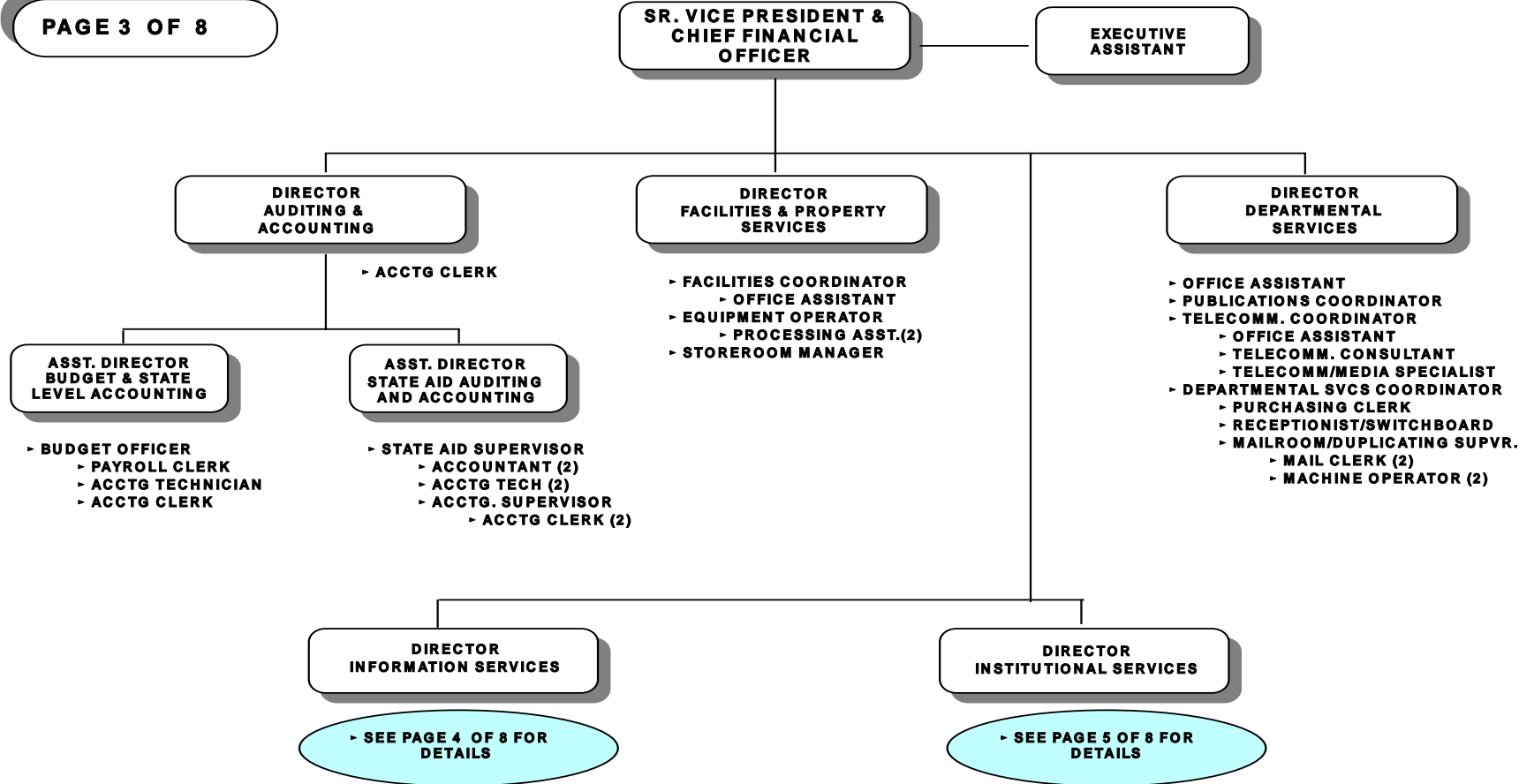
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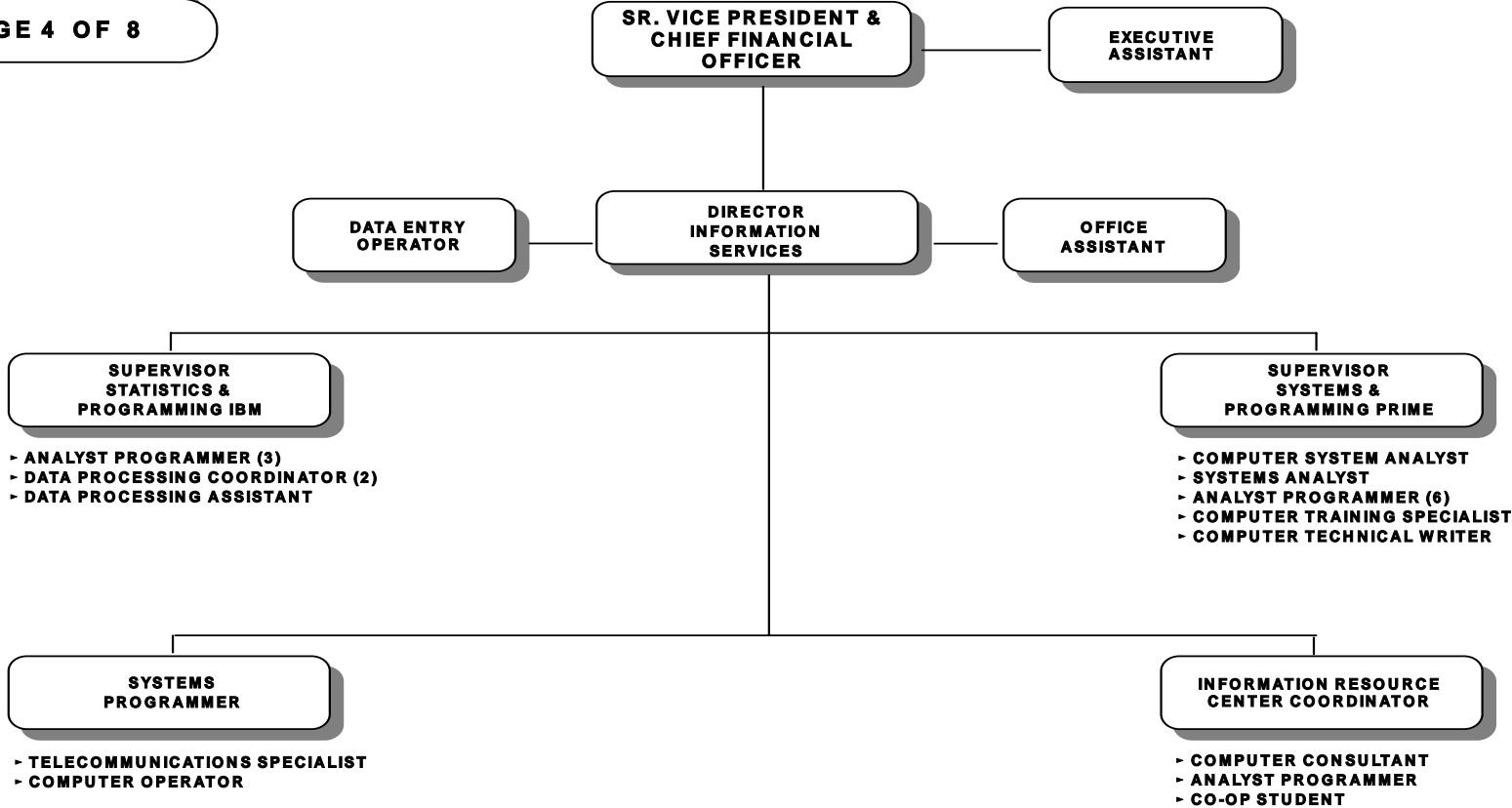


EXHIBIT 3
DEPARTMENT OF COMMUNITY COLLEGES
ORGANIZATIONAL STRUCTURE
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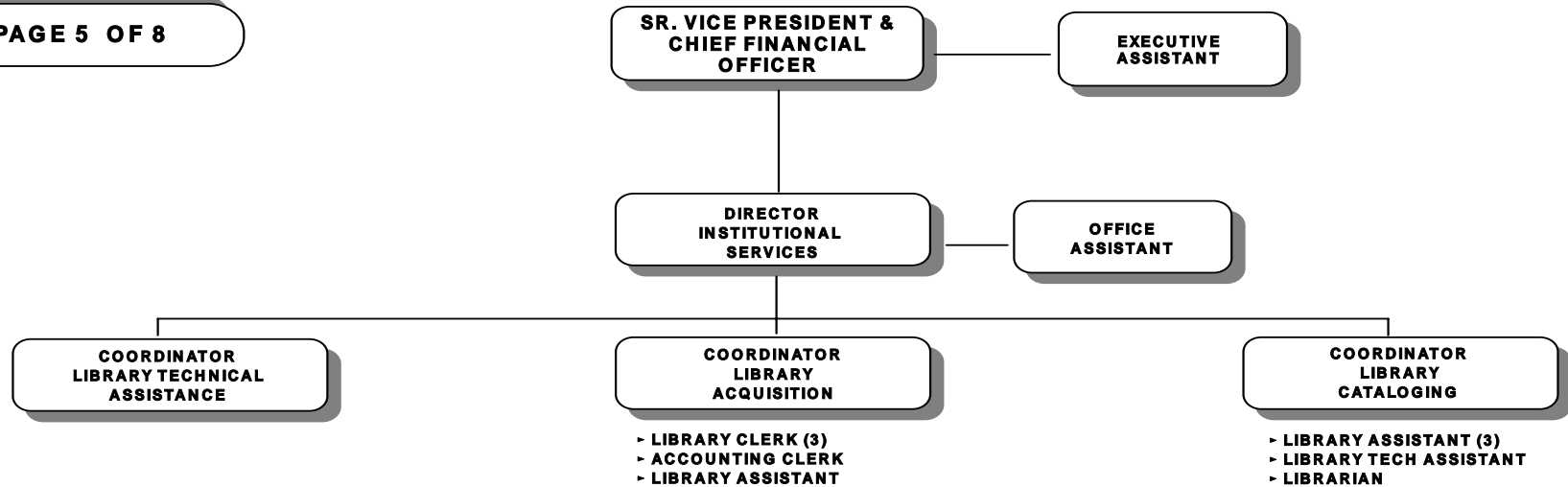
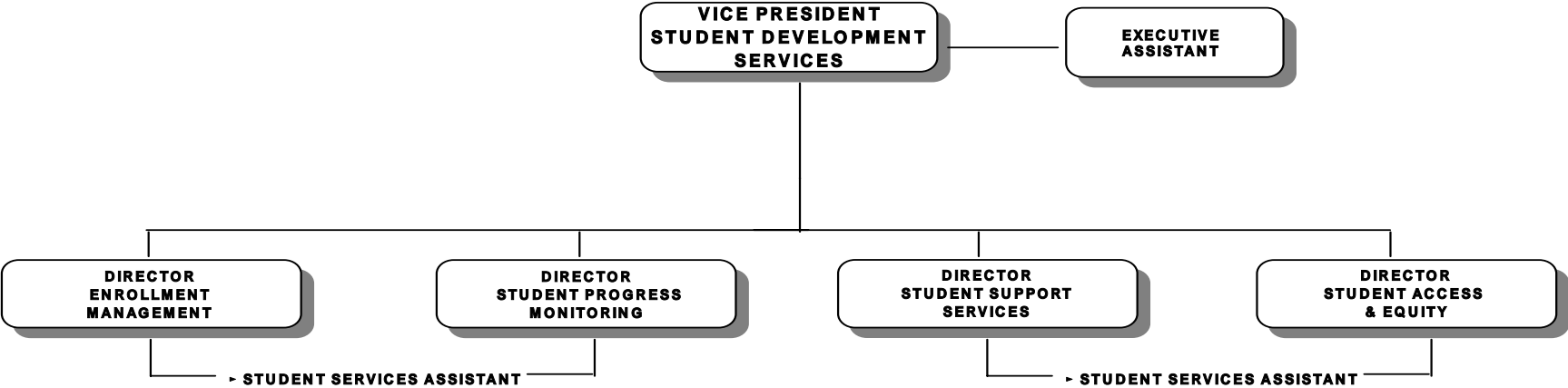


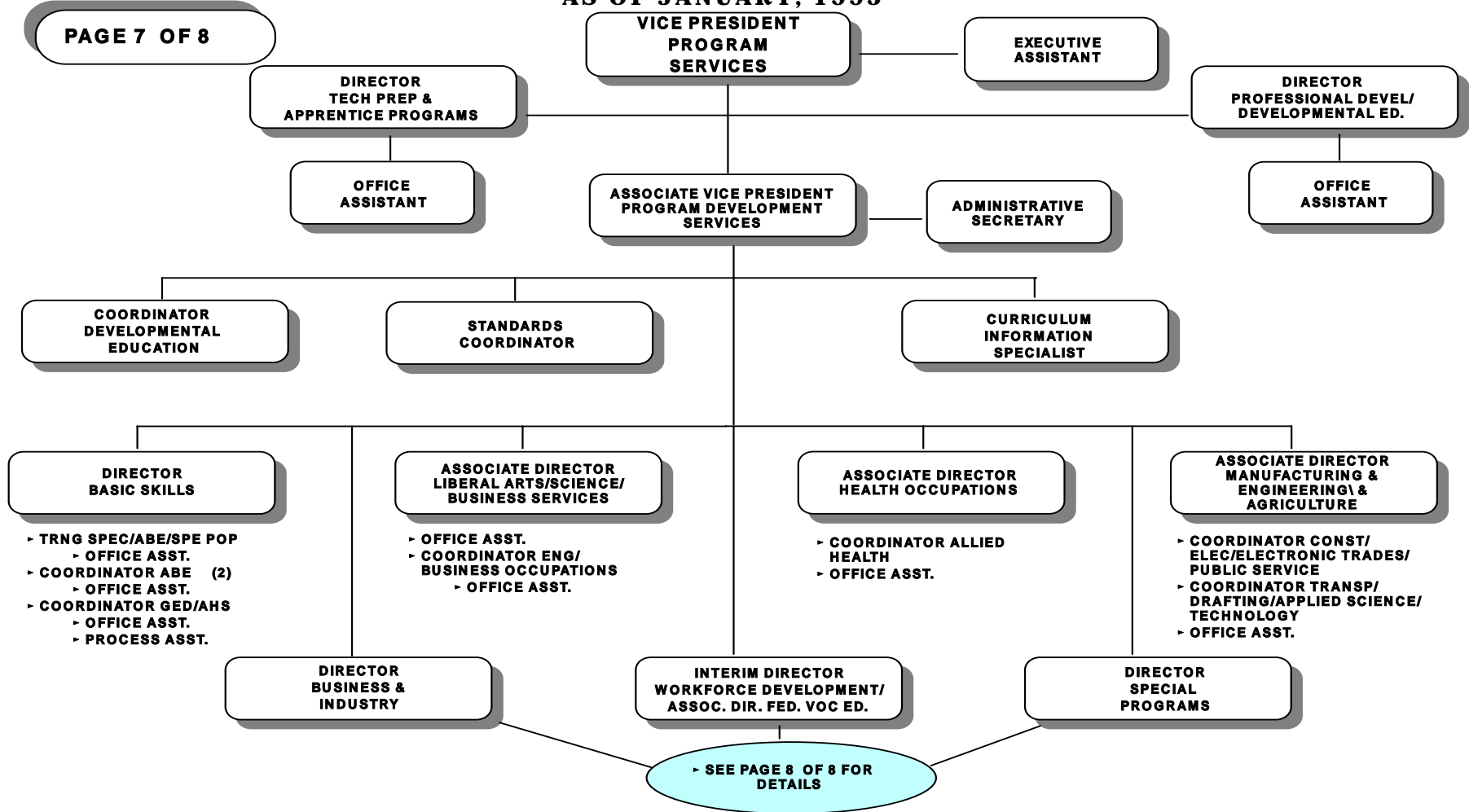
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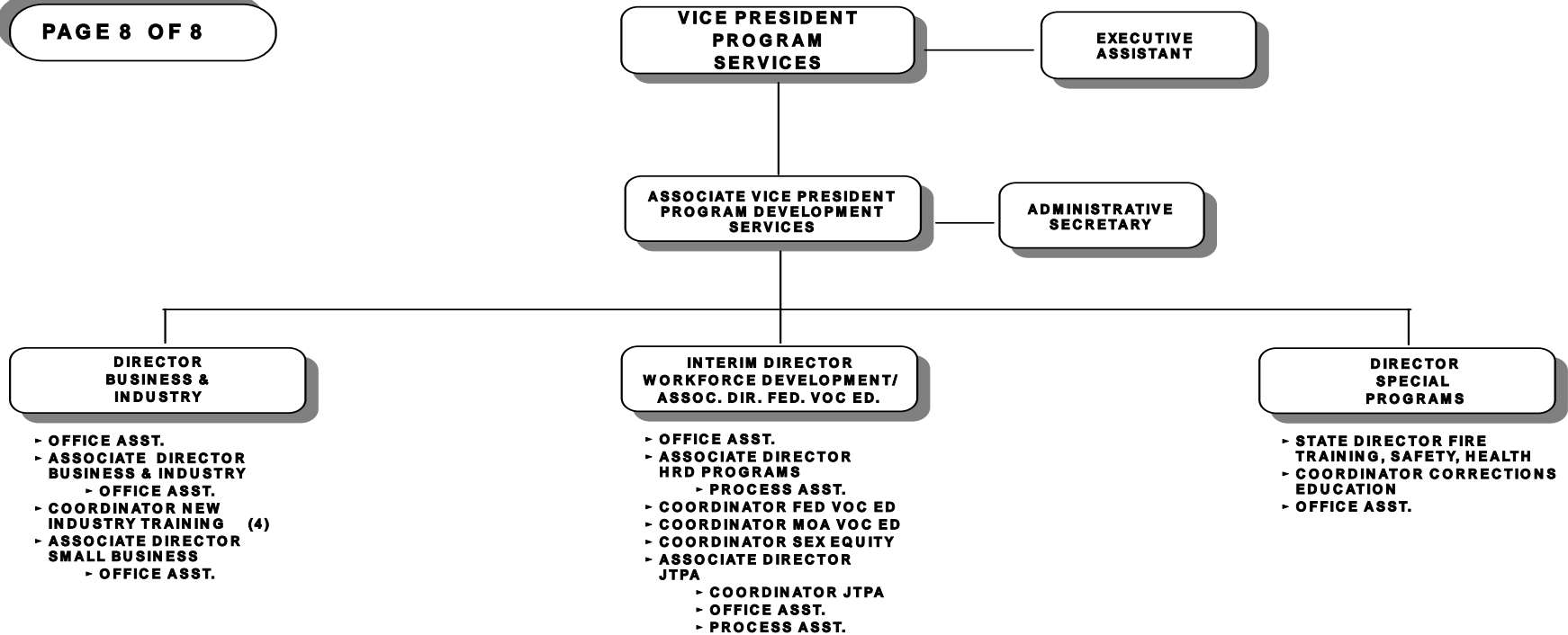
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ORGANIZATIONAL STRUCTURE
AS OF JANUARY, 1995**

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EVALUATION OF THE CURRENT STRUCTURE

ORGANIZATIONAL STRUCTURE: GENERAL COMMENTS

The main objective of this audit was to identify the services needed by the individual community colleges from the state level staff and to make recommendations which would allow for effective delivery of these services. To accomplish this objective, we concentrated on identifying the functional areas needed. To assist in the identification of the services needed by the individual community colleges, in April, 1995, we surveyed staff at different levels: Local Board Chairpersons, Presidents, Business Officers, Academic Officers, Research/Planning Officers, and Operational Officers. Results of the survey were used as one source by the audit team to reach its conclusions. Many of our recommendations are dependent on the effective use of technology to achieve efficiency.

Based on our analyses of existing functions and roles, we believe that the President and the State Board have made organizational changes and realigned functions in a manner which should improve the efficiency and responsiveness of the System Office to the individual community colleges. The majority of the organizational realignments were identified by the audit team in May, 1995. However, there are additional related organizational issues which we feel need to be addressed by management in order to further improve the structure. These are discussed below.

THE CHANGING ROLE OF THE SYSTEM OFFICE NEEDS TO BE FURTHER DEFINED AND MADE KNOWN THROUGHOUT THE SYSTEM.

Historically, the System Office's role has been more that of a "regulator," making sure each community college was in compliance with regulations (mostly budgetary) for various programs and functions. The organizational structure had evolved over the years in response to this role. The regulatory role was necessary as the System was growing and newly formed institutions were struggling to establish systems of accountability. However, the last community college joined the System in 1978. Since the colleges have had 18 years to establish their policies and procedures, they should now be in a position to be responsible for their own accountability **based on criteria set by the State Board.** (See the discussion of the proper role of the State Board on page 30.)

The current System President, with State Board support, has made significant strides in re-defining the role of the System Office. The System Office has begun shifting from a regulatory role to one of *service* to the individual community colleges. Personnel from the local community colleges indicated in survey responses that they sometimes received inconsistent, and often conflicting, information from different sections within the System Office. To prevent continued inconsistencies, communication of this universal role change to all segments of the community college system is essential to the accomplishment of the redefinition.

EVALUATION OF THE CURRENT STRUCTURE (CONTINUED)

RECOMMENDATION

The System President, with direction from the State Board, should more clearly define the service role of the System Office and identify how interactions with the individual community colleges should change as a result. Since much of the traditional regulatory role of the System Office has been mandated by legislation, we recommend a detailed review of the Community College System legislation and budgeting regulations. Once necessary changes are identified, the State Board should pursue those changes to allow accountability at the individual community college level.

THERE IS A NEED FOR A COMPREHENSIVE CLASSIFICATION STUDY OF THE POSITIONS IN THE SYSTEM OFFICE.

As we conducted the audit of the System Office, we noted inconsistencies in the titles, grades, salary levels, and actual responsibilities of persons performing the same basic functions. Review of existing job descriptions revealed some descriptions which appear to have been written to match the education and qualifications of individuals rather than the requirements for the positions. As a result of the reorganization, the duties of other positions has changed considerably. We noted several positions which should be downgraded based on the change in duties, as well as positions which may need upgrading. Personnel records contain evidence of upgrading for individuals as opposed to upgrading for the class of positions. Examination of the State Personnel database revealed a number of positions which have been flagged for several years as “T” (temporary grade/salary level) or as “Z” (salary exceeds maximum for classification). In our opinion, there is a need to request the Office of State Personnel to conduct a complete classification study for all positions in the System Office to determine the proper classification and pay levels.

Further, the System Office has not developed an effective system of documenting employee workloads. This complicates management’s ability to justify existing staffing levels or to measure productivity or accountability. Our examination revealed that the System Office has implemented the State-approved Performance Management System for personnel covered under the State Personnel Act. However, based on a review of a sample of work plans and evaluations, we believe the criteria for some job areas needs to be redefined to accurately reflect the responsibilities of each position, especially in light of the reorganization and redefinition of duties. Additionally, we were unable to locate any formalized job descriptions and/or performance evaluations of individuals in the 16 positions which are exempt from the State Personnel Act. Broad “mission expectations” have been defined for these positions and approved by the State Board. In our opinion, all personnel should be evaluated annually and the need for each position should be periodically reviewed.

Position management is an essential tool in establishing proper workload requirements. In our review of the staff positions, we found numerous positions in which the position

EVALUATION OF THE CURRENT STRUCTURE (CONTINUED)

numbering series was different from the majority of the positions located in that division. Many of these inconsistencies resulted from the recent reorganization. The proper management of positions is inhibited when the numbering system is inconsistent. Currently, the budget code structure does not match the organizational structure. Budget restrictions may limit management's ability to coordinate all available resources in the most efficient manner. (See page 37 for comments on the "Funding for the System.") This situation could also hamper proper workload assignments and the provision of the most efficient service to the community colleges.

RECOMMENDATION

We recommend the System President request the Office of State Personnel (OSP) conduct a comprehensive classification study for all positions in the System Office. We also recommend a numbering system which would incorporate a separate series of numbers for each division to enhance position management and assignments. Further, we recommend the State Board's Personnel Committee undertake a review of the number and type of exempt positions and also evaluate the necessity of each position. If OSP does not have the resources to conduct a full classification study, OSP should be consulted in the design of the classification study and should participate in the selection of a consultant to perform the study.

SYSTEM OFFICE DOES NOT HAVE A SYSTEMATIC PLAN FOR IDENTIFYING AND TRAINING PERSONNEL TO FILL KEY POSITIONS.

Our analyses of the positions and personnel at the System Office showed that 22% of the System Office staff have been employed by the State of North Carolina for a sufficient period of time to allow them to retire immediately if they chose. Further analyses showed that many of these staff members are in key positions. We were unable to locate any systematic management plan to handle an exit of individuals in leadership positions. There was no evident training program for key positions or logical career ladder progression to fill the vacancies which could occur in the near future.

RECOMMENDATION

We recommend management immediately develop and implement a plan to train successors for key positions. Leadership succession is essential to the continuous progress of any organization. Further, we recommend that all staff be cross-trained to the extent possible to ensure continued efficient operations.

REFINEMENTS TO THE ORGANIZATIONAL STRUCTURE SHOULD FURTHER ENHANCE OPERATIONS.

EVALUATION OF THE CURRENT STRUCTURE (CONTINUED)

The System President began the task of changing the role of the System Office by considering how to restructure the existing staff. We reviewed the resulting organizational structure in conjunction with information we accumulated through interviews and surveys. As stated earlier, we believe the current organizational structure is logical and functional. We do have suggestions, however, for refinements which we feel would further enhance operations. We discuss those below.

Using information obtained through interviews and survey responses, we identified three major functional areas that System personnel indicated they needed from the System Office. The functional areas are: **(1) *Student Affairs and Programs***; **(2) *Information and Technology***; and **(3) *Administrative Services***. We then compared the identified needs with the current organizational structure. (See Exhibit 2, page 11). The major divisions in the current structure are virtually the same as identified as needed: *(1) "Academic and Student Services" vs. Student Affairs and Programs*; *(2) "Planning and Research" vs. Information and Technology*; and *(3) "Business and Finance" vs. Administrative Services*. The major exception noted is that of the newly created "Systems Affairs" division.

In examining the functions assigned to the Systems Affairs Division, we note that the major focus relates to lobbying, marketing, legal interpretation, public relations (including improving relations with the other components of the North Carolina education continuum), and operations of the North Carolina Community College Foundation, Inc. We believe these functions are important and necessary for the System; however, we feel their importance would be enhanced by operationally locating them in the President's Office rather than as a separate division. In our opinion, these functions should be reporting to either the Executive Assistant to the President or the Assistant Vice President for Public Policy in the President's Office. Staff in the Systems Affairs Division indicated they work closely with the Assistant Vice President. If these functions are moved to the President's Office, it is our opinion that three of the professional positions and two of the office support positions could be reassigned to other divisions, such as Academic and Student Services or Information Systems, which are in need of additional help.

In the area of Academic and Student Services, we believe the current organizational structure is well designed and will enhance the cohesive operation of the division. Since this structure has only been finalized within the last month, it is too early to determine the exact number of additional staff that will be needed. However, the positions and duties as shown on the organizational chart appear to be reasonable.

EVALUATION OF THE CURRENT STRUCTURE (CONTINUED)

The Information Systems Section is the area where we find the greatest need for additional personnel. A 1989 study of the section showed that, at that time, the section needed 11 additional people to handle the volume of work. No positions have been added since that time. The November, 1995, technology planning study again identified a backlog of programming requests in this section. An additional factor to be considered in determining the need for additional personnel is the decision to support not only the PRIME and IBM computer systems, but also the three UNIX-based computer systems. If the current staff is inadequate to support the PRIME and IBM functions and requests, it will be almost impossible for them to effectively support the added UNIX-based systems. (See page 32 for discussion of technology issues.)

In the Business and Finance Division, we noted a number of functions being performed at the System Office level which we believe should properly be handled at the individual community college level. Several of these functions were identified as duplicative by the internal review recently conducted by the Vice President of Business and Finance. Other functions now performed by personnel in this division could more effectively be accomplished through the use of more advanced technology. In all, we believe a minimum of three positions could immediately be reassigned from this division to other divisions needing assistance if the functions identified as duplicative were relinquished to the individual community colleges. Additional positions in this division should be available for reassignment (or deletion) if advanced technology and programs are employed.

RECOMMENDATION

We recommend the System President and his staff continue to evaluate the personnel needs of each division. The recommendations for refinements which are contained in this report should be used as a guide to further review the processes and procedures in use at the System Office. Overall, we feel the System Office will need added positions in the Information Systems area; however, the exact number will be dependent upon the development of a detailed technology plan. In our opinion, the personnel needs of the Academic and Student Services Division could be filled by reclassification of the positions we have identified above.

OPERATIONAL ISSUES: GENERAL COMMENTS

During the audit we identified a number of operational/efficiency issues which appear to have an adverse effect on System Office operations. Each of these areas is discussed below, along with recommendations for improvements.

EVALUATION OF THE CURRENT STRUCTURE (CONTINUED)

THE ROLE OF THE STATE BOARD OF COMMUNITY COLLEGES NEEDS TO BE CLEARLY DEFINED.

Based on interviews with State Board members, System Office staff, and community college trustees and presidents, the level of accountability for the community colleges has emerged as a major issue. Increasingly, accountability is becoming the responsibility of the local governing body. As this shift in accountability occurs, the role of the State Board, as defined in legislation, needs to be reexamined and clearly defined. Many of the regulatory responsibilities that currently reside in the System Office may not provide the most effective review process for programs instituted in the System. Additionally, some State Board members have indicated uncertainty over the exact scope of authority which the State Board has. With a clear definition of the scope of authority and its role, the State Board will be in a better position to provide direction to the System President and the individual community colleges.

RECOMMENDATION

We recommend that the State Board undertake a detailed review of their authorizing legislation to identify needed changes to support the new direction of the System and place accountability at the proper level. The State Board's recommendations for legislative changes should be conveyed to the General Assembly for action. Based on legislative direction, the State Board should develop specific guidelines for its operations. The operational procedures should clearly define the role of the System President and his staff. The development of clear operating guidelines is essential in providing proper direction for the entire system.

ACCOUNTABILITY FOR FINANCIAL OPERATIONS SHOULD BE PLACED AT THE INDIVIDUAL COMMUNITY COLLEGE LEVEL, WHERE PRACTICAL.

We observed several accounting functions performed by System Office financial personnel that should be the responsibility of the individual community colleges. In addition, other tasks performed by this section duplicate efforts conducted by the Office of the State Auditor during annual financial audits. Below, we detail several specific instances of duplicated effort.

Worker's Compensation: An employee at the System Office handles worker's compensation claims for staff at the System Office as well as for the community colleges. This individual oversees claims for over 9,000 employees. With the increase in claims during the past decade, the employee's workload has become excessive. Interviews with community colleges' business officers indicate this function could be handled by existing staff at the individual community colleges.

EVALUATION OF THE CURRENT STRUCTURE (CONTINUED)

Monthly Audits of General Disbursements: Accounting staff at the System Office perform monthly “desk audits” of general disbursements for a sample of ten colleges. The purpose of these desk audits is to assure adequate documentation and compliance with state rules and regulations. The sampled colleges submit copies of all documentation supporting expenditures to the System Office for the monthly audit. This function duplicates tests performed by Office of the State Auditor (OSA) financial auditors in annual audits of all 58 colleges. OSA auditors do not rely on the System Office desk audits. In our opinion, these audits should be discontinued at the System Office level.

Fixed Assets: G.S. §115D-58.5(b) states that “*equipment shall be titled to the State Board of Community Colleges if derived from State or federal funds.*” As a result, the System Office performs many functions for the colleges with regard to equipment. For example, the System Office accounting staff receive copies of supporting documentation for equipment purchased by the colleges, review the documentation for accuracy, and compare the documentation to monthly financial reports. In addition, the System Office property service personnel reconcile monthly fixed asset inventories to the accounting records for the colleges. We believe the individual community colleges have the capability to account for fixed assets themselves.

Our audit further identified other accounting functions which could be moved to the individual community college level. These include:

- Accounting staff review the colleges’ check registers for accuracy and account classification and then reconcile amounts on these registers to monthly financial reports. The monthly reports are also recalculated for mathematical accuracy and proper account coding is verified.
- System Office staff reconcile the bank statements for state fund checks for the colleges.
- Community college daily deposit documentation is sent to the System Office for review and consolidation.

[AUDITOR’S NOTE: Management has recently conducted a review of some of the functions performed at the State level. This review confirmed several of the items identified by the audit team.]

EVALUATION OF THE CURRENT STRUCTURE (CONTINUED)

RECOMMENDATION

We recommend management review all tasks performed by the System Office accounting personnel to determine which functions can and should be handled locally and reviewed through OSA audits. Further, the System Office should implement automated techniques to review and consolidate community college financial data wherever possible. Each community college should process worker's compensation claims for its staff. We also recommend that the General Statutes be revised to place ownership of all equipment with the individual community colleges. Equipment verification and reconciliation should then be administered locally and audited by OSA.

TECHNOLOGY ISSUES: GENERAL COMMENTS

In 1983 the System Office decided to purchase a PRIME computer system to perform financial and administrative functions for the System Office as well as the community colleges. PRIME hardware systems were purchased by all but three of the community colleges. (Those three purchased computer systems from other vendors.) The System Office acquired the programming code and hired a staff of programmers who modified the code for use by the community college system. Aggregate databases were built from the PRIME data on the State's mainframe computers, operated by SIPS, which are IBM-based. Since the state-level (IBM) and college-level (PRIME) systems are on different platforms because of different processing requirements, the System Office employed another staff of programmers whose main function was to write programs that convert the PRIME data to IBM mainframe format.

THE COMMUNITY COLLEGE SYSTEM IS PLACED AT A DISADVANTAGE DUE TO LACK OF ADEQUATE TECHNOLOGY EQUIPMENT AND PROGRAMS.

During the audit, we learned that a major focus of the programs developed to-date has been the maintenance of financial records supporting expenditures and FTE computations for the colleges. Information systems have been developed to assist the colleges in administrative and financial processes and also to support management reporting and statistical requirements. College-level systems include major applications such as student admissions, student enrollment, student records, literacy program administration, continuing education administration, student financial aid administration, payroll, accounts payable, accounts receivable, and general ledger. It should be noted that all colleges have now migrated to the State Telecommunications System TCP/IP network. This will enhance Internet access by the colleges.

Based on system-wide studies conducted in 1988 and 1989, the System Office developed the *Administrative Information Systems Plan* in June, 1992, that outlined the general

EVALUATION OF THE CURRENT STRUCTURE (CONTINUED)

goals of the community college system and discussed how information systems could assist in accomplishing these goals. The plan was submitted to the Information Resource Management Commission (IRMC) in compliance with legislation requiring each State agency to submit technology plans.

Since the development and approval of the 1992 plan, significant changes have occurred in technological areas which should have a major impact on the viability of the plan. Specifically, the North Carolina Information Highway (NCIH) became operational and the System Office decided to convert from PRIME to UNIX hardware/operating systems. In addition, we identified the following inefficiencies regarding technology at the System Office:

- System Office does not have an integrated voice-mail system. System Office staff provide services to the community colleges primarily by telephone. Costs are increased due to the “phone tag” that results from inadequate messages.
- Training on use of personal computers is inadequate. As a result, new equipment sits idle or is not fully utilized.
- Many accounting functions are performed manually although automation could significantly improve efficiency. The lack of equipment and an ineffective prioritization system for new equipment have prevented these improvements.

In November, 1995, the System Office commissioned an information technology planning study in order to begin the process of addressing these kinds of issues. The study report confirmed the technology deficiencies identified by the audit team in June, 1995. As of mid-February, 1996, no concrete technology action plan has been developed; however, the Vice President for Planning and Research is in the process of convening an inter-System committee to begin the process of detailed planning.

RECOMMENDATION

We recommend that the System Office give priority to the development of its detailed technology plan to include assistance to the individual community colleges for step-by-step plans for migration onto the NCIH and the conversion from PRIME to UNIX. The technology plan should also address procurement and distribution of additional personal computers, purchase of a voice-mail system, training schedules for new technologies, and applications of technology for accounting use. As required by G.S. §143B-426.21(b)(3), the System’s technology plan should be submitted to the IRMC for review and approval.

THE UNIX CONVERSION WAS NOT REVIEWED AND APPROVED BY THE IRMC.

EVALUATION OF THE CURRENT STRUCTURE (CONTINUED)

The company that produces PRIME computer equipment discontinued operations making it impossible to locate replacement parts. As a result, the System Office made the decision to convert from PRIME hardware/operating systems to a UNIX operating system. The migration of the hardware platform from PRIME to UNIX-based systems was predicated on the premise that the UNIX platforms provided a more open architecture, which is in compliance with technical requirements adopted by the IRMC. Also, the college application systems could be ported to the UNIX-based systems.. By converting to UNIX, the changes to end-users would be minimal and it would enable the colleges to use the PRIME hardware until such time as they could afford to purchase UNIX-based systems..

The System Office obtained approval from the Division of Purchase and Contract for convenience contracts with three computer vendors (SUN, BULL, and IBM) using UNIX operating systems. The System Office informed the individual community colleges that they could purchase equipment from any of the three vendors without specific approval from the IRMC (see paragraph below). The System Office purchased hardware from each of the three vendors and tested each vendor's operating system at a different community college site.* The UNIX operating system provided by each vendor is different. As a result, the System Office will be required to operate, support, and convert data to IBM mainframe format for four different systems. The anticipated conversion period from the Prime System to one of the three new systems is 3 to 5 years.

[*AUDITOR'S NOTE: As of March 20, 1996, System Office personnel stated that six colleges are now operating UNIX-based systems and an additional seven have purchased UNIX hardware and are in the conversion process.]

Our audit identified a number of concerns relating to the UNIX conversion. The major concern is that the IRMC **did not review detailed plans outlining the transition from PRIME to UNIX**. Additionally, the IRMC's Technical Assistance Committee was not consulted to provide direction in this conversion. However, the System Office did send a memo dated April 14, 1993, outlining its intent to test the three different UNIX systems, to the IRMC staff, who subsequently agreed to the testing, as evidenced in a memo dated May 7, 1993. While we are not questioning the technical architecture of the UNIX, we are concerned that other avenues were not fully explored. In our opinion, the plan to support four systems will unnecessarily increase costs.

EVALUATION OF THE CURRENT STRUCTURE (CONTINUED)

Also, at issue is whether the IRMC has jurisdiction over technology equipment purchases made at the individual community college level. The IRMC is responsible for statewide technology planning and coordination. In this instance, the IRMC only approved the testing of the three vendors. As noted earlier, 13 colleges have already purchased or are in the process of purchasing UNIX-based systems, with another three to five colleges set to purchase before year's end. Clearly, GS § 143B-426.21 gives the IRMC jurisdiction over technology plans and purchases made by the State Board of Community Colleges and the Department. Further, GS §115D-58.5(b) states that . . . *“equipment shall be titled to the State Board of Community Colleges if derived from State or federal funds.”* Therefore, since IRMC has responsibility for the overall state technology plan and architecture, it follows that IRMC should have jurisdiction for purchases made by community colleges with state funds. It is not clear, however, that this is the case. Historically, the IRMC has not been involved with technology purchases at the individual college level. In our opinion, the issue of jurisdiction needs to be clearly resolved.

RECOMMENDATION

We recommend that the General Assembly and the IRMC review legislation to determine the IRMC's role and jurisdiction over technology purchases made by individual community colleges. Further, the IRMC should review the facts in this case and make a determination as to whether it should now be involved in the UNIX conversion. Lastly, we recommend the State Board of Community College revisit the decision to allow the colleges to purchase UNIX-based systems from any of the three vendors.

THE SYSTEM OFFICE IS CURRENTLY SUPPORTING DUPLICATE DATABASES.

During the audit we learned that data is collected from various sources throughout the System Office and the community colleges with regard to students, courses, and educational outcomes. Data collection is not coordinated and information is located in several databases, many of which duplicate information. For example, there is the student tracking database and the literacy database, both of which capture many of the same elements. Further, we also learned that in many cases the data is manually entered into the various databases from statistical reports generated from the administrative services database.

EVALUATION OF THE CURRENT STRUCTURE (CONCLUDED)

RECOMMENDATION

We recommend that the System Office coordinate data collection into a set of relational databases from which data can be accessed and extracted. The coordination effort should include persons from the information systems section as well as instructional services personnel, planning and research personnel, and financial personnel. The coordination of data collection should be addressed in the technology plan submitted to the IRMC for review and approval.

ISSUES FOR FURTHER STUDY

During the audit, we identified a number of issues outside the scope of the audit which need further study. Below we have briefly outlined these issues.

FUNDING FOR THE SYSTEM

During the audit we noted numerous functions required of both System Office personnel and personnel at the individual community colleges which were the direct result of the funding formula and FTE (full-time equivalent) computations required by legislation. In our opinion, the General Assembly and the State Board need to review these formulas with the goal of simplifying them. Further, the System Office and the individual community colleges are restricted in their ability to channel funds to the most needed areas due to current appropriations regulations. The ability to shift funds among budget codes would enhance the System's responsiveness to the changing needs of the communities and business and industry.

PROPRIETARY SCHOOLS

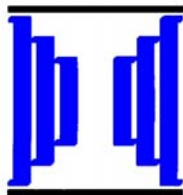
Article 8, Chapter 115D of the General Statutes assigns the responsibility of oversight and licensing of all privately owned, for profit educational institutions to the Department of Community Colleges. Concerns were raised during the audit that this may not be the best placement for this responsibility. In our opinion, the General Assembly needs to review the legislation and consider whether the Department of Community Colleges is the proper agency to oversee the proprietary schools.

NORTH CAROLINA CENTER FOR APPLIED TEXTILE TECHNOLOGY

The North Carolina Center for Applied Textile Technology is located in Belmont, North Carolina and serves as a specialized facility for the benefit of the textile industry. It is responsible for identifying problems facing the textile industry and for solving those problems through education, training and technology transfer.

Article 6, Chapter 115D of the General Statutes creates the Center for Applied Textile Technology. This legislation says the Center "*...shall be managed, subject to policies and regulations of the State Board of Community Colleges...*" but does not establish the Center as a separate community college. Questions have existed regarding the need for such a specialty facility. It may be appropriate and cost effective to close the Center and reassign its function and resources to one or more existing campuses. Likewise, given the changing industrial profile of the State as a whole, it may be equally justifiable to keep the Center but broaden its perspective to that of applied technology generally. This would give a focus to the many technology-based industries that are already resident or who may consider locating here in the future. In our opinion, the State Board needs to review the status of the Center and make a recommendation to the General Assembly as to the proper location, management, and funding of the Center.

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NORTH CAROLINA COMMUNITY COLLEGE SYSTEM

April 2, 1996

 LLOYD V. HACKLEY
 PRESIDENT

ALAMANCE COMMUNITY COLLEGE
 ANSON COMMUNITY COLLEGE
 ASHEVILLE-BUNCOMBE
 TECHNICAL COMMUNITY COLLEGE
 BEAUFORT COUNTY
 COMMUNITY COLLEGE
 BLADEN COMMUNITY COLLEGE
 BLUE RIDGE COMMUNITY COLLEGE
 BRUNSWICK COMMUNITY COLLEGE
 CALDWELL COMMUNITY COLLEGE
 & TECHNICAL INSTITUTE
 CAPE FEAR COMMUNITY COLLEGE
 CARTERET COMMUNITY COLLEGE
 CATAWBA VALLEY
 COMMUNITY COLLEGE
 CENTRAL CAROLINA
 COMMUNITY COLLEGE
 CENTRAL PIEDMONT
 COMMUNITY COLLEGE
 CLEVELAND COMMUNITY COLLEGE
 COASTAL CAROLINA
 COMMUNITY COLLEGE
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 CRAVEN COMMUNITY COLLEGE
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 WILSON TECHNICAL
 COMMUNITY COLLEGE
 NC CENTER FOR APPLIED
 TEXTILE TECHNOLOGY

The Honorable Ralph Campbell, Jr.
 State Auditor
 State of North Carolina
 300 N. Salisbury Street
 Raleigh, NC 27603-3217

Dear Mr. Campbell:

I have reviewed the Report on the Performance Audit that you conducted for the North Carolina Community College System Office. I am grateful for your assistance in this important endeavor. I extend my personal appreciation in particular to your staff members who performed the groundwork for the report.

This is a good report. As you will recall, I requested this performance audit early in my tenure as President to assist me in my effort to organize the System Office to ensure that the services we render to the colleges would be at the highest level of quality, but with the least cost to the State. Last spring, I presented a new organizational structure to the State Board of Community Colleges and over the weeks that followed, I filled key positions in that structure. For the most part, the statements in the report are consistent with the organizational concepts and structure, if not in specific titles, which begin to bring this office into line with post-secondary institutions whose primary function is service to campuses.

The only difference of note between our current organization and the audit report is the recommendation that deals with the System Affairs Division. Moving all of the functions in that division to the President's Office, as the report suggests, would require that a new, large section be established in the office of the CEO, which seems contradictory to good management practices and inconsistent with the spirit of the report. The report indicates clearly that the functions performed by the System Affairs Division "...are important and necessary for the System." We agree with that conclusion. The positions in the section are related to the amount of work that I expect, as well as to the type, importance, and effectiveness of the functions assigned. They include those listed: "...lobbying, marketing, legal interpretation, public relations, operations of the foundation," plus others not mentioned in the report such as working with business and industry, public and private schools and colleges, and providing systemwide leadership in a variety of special projects. We are convinced that the number and type of activities assigned to the division serve this System better, and therefore the State, as they are currently constituted, with the head of the division reporting to the President

The Honorable Ralph Campbell, Jr.
Page Two
April 2, 1996

I appreciate your taking note of the nearly seven percent reduction of System Office staff since January, 1995. We now have the lowest number of staff members that we have had at any time during the past fifteen years. Moreover, my commitment to the State Board remains firm to ensure an organization that is as lean as possible, but that answers the increased demand for services, significant growth in the number of students served and our presence in all 100 counties. I am gratified that your concern about the personnel was over placement and not number.

The several studies you recommended, along with those currently underway, will provide additional fundamental and comprehensive data on staffing needs, specific personnel qualifications required, and any further organizational modifications that may be necessary to accomplish the responsibility inherent in the legislature's having designated the North Carolina Community College System as the "...primary lead agency for delivering job training, literacy and adult education programs in the State." In order to meet this mandate, we must complete the transformation of this office into an *educational service organization* that provides state-of-the-art education and training assistance to all 59 institutions, as they serve 750,000 students and their communities in all 100 counties. Our goal is to be the primary lead agency in developing in this State the best workforce education and training system in the world. This State needs a System Office that is equal to this task.

I thank you again for your assistance and for a fine report. We will look very carefully at the recommendations for appropriate guidance as we continue to develop to meet the increasing demands on the State's Community College System.

Sincerely,


Lloyd V. Hackley

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In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Harlan E. Boyles	State Treasurer
The Honorable Michael F. Easley	Attorney General
Mr. Marvin K. Dorman, Jr.	State Budget Officer
Mr. Edward Renfrow	State Controller

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Department of Community College Officials

Dr. Lloyd V. Hackley	President, North Carolina Community College System
Members	State Board of Community Colleges

April 15, 1996

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