

Program Evaluation Division

Division Activities and Accomplishments: 2008 - 2016



**Report to the
North Carolina General Assembly**

April 1, 2017



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PROGRAM EVALUATION DIVISION

NORTH CAROLINA GENERAL ASSEMBLY

Division Activities and Accomplishments: 2008–2016

April 2017

Dear Honorable Members of the General Assembly,

We are a permanent non-partisan legislative staff unit of the Legislative Services Office established by law in 2007 to determine if programs of state government are returning sufficient benefits to justify continued taxpayer investment.¹

We have been very active during our first nine years, producing **100** reports with several having legislative action. We include recommendations in our reports for increasing the efficiency and effectiveness of state government. This publication follows up on those recommendations to determine what actions have been taken by the General Assembly or the agencies that were the subject of our evaluations.

Sincerely,

John W. Turcotte
Director

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Program Evaluation Division Return on Investment

From 2008 through December 2016, the Program Evaluation Division (PED) has recommended \$143.6 million in recurring savings and \$117.9 million in non-recurring savings to the State. Though agencies and the General Assembly have the option to implement or reject recommendations, those that have been implemented demonstrate that the division's work is cost beneficial. At present, division recommendations adopted by its directing committee, the Joint Legislative Program Evaluation Oversight Committee (JLPEOC), and implemented by agencies or the General Assembly, save the State \$25.2 million annually. PED's 2015–17 annual recurring budget is \$1.7 million, for an annual recurring benefit-to-cost ratio of almost 15 to 1. An additional \$36.9 million in non-recurring savings also has been implemented based on PED's recommendations.

Outcomes at a Glance

- The General Assembly has enacted legislation based on 36 PED reports.
- PED reports have won eight National Legislative Program Evaluation Society (NLPES) Impact Awards and nine National Conference of State Legislatures (NCSL) Notable Document Awards.
- PED was selected as the recipient of the 2014 Excellence in Evaluation Award from NLPES. The Excellence in Evaluation Award is presented to an office that is determined to have made significant contributions to the field of legislative program evaluation during a four-year period. The Excellence in Evaluation Award is awarded to only one state's office in a given year.
- PED hosted the annual Professional Development Seminar for the National Legislative Program Evaluation Society in 2014.

¹ Session Law 2007-78.

2016 Joint Legislative Program Evaluation Oversight Committee (JLPEOC)

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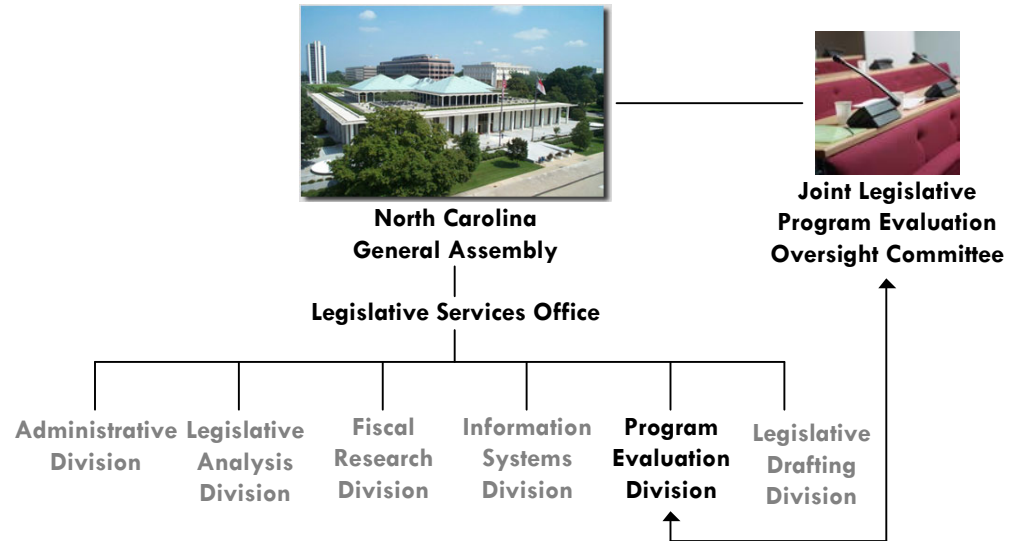
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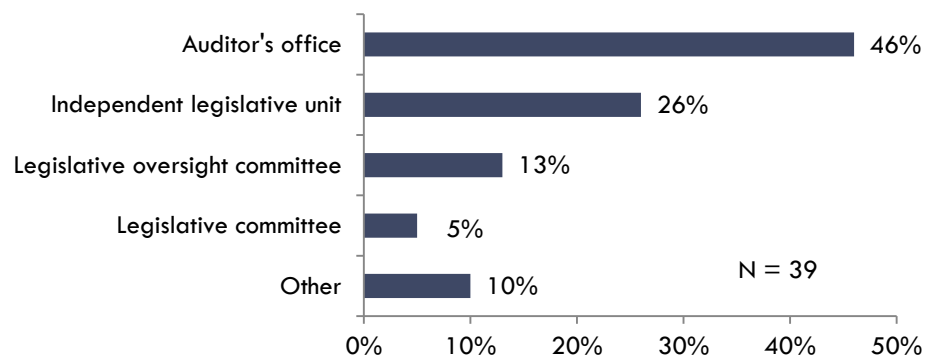
Legislative Oversight Organization in North Carolina

The Program Evaluation Division (PED) assists the General Assembly in fulfilling its responsibility to oversee government functions. PED primarily supports legislative oversight by conducting independent evaluations of state government as directed by the Joint Legislative Program Evaluation Oversight Committee (JLPEOC). As legislators perform their oversight function, they often have questions about how policies are being implemented, how money is being spent, and what results are being achieved. PED addresses those questions from an unbiased perspective through program evaluations.



Legislative Oversight Organization Across the Country

North Carolina was one of the last states to create a legislative program evaluation unit. The organizational placement of legislative evaluation units varies across the country (see figure below).² About one-quarter of states, including North Carolina, have evaluation offices that operate as independent legislative units. Almost half of states have evaluation offices that are part of the legislative auditor's office, whereas only a few states have evaluation offices within a legislative oversight or other committee. About two-thirds of states have a separate office that also conducts audits, typically a state auditor that conducts mainly financial audits as part of the executive branch.

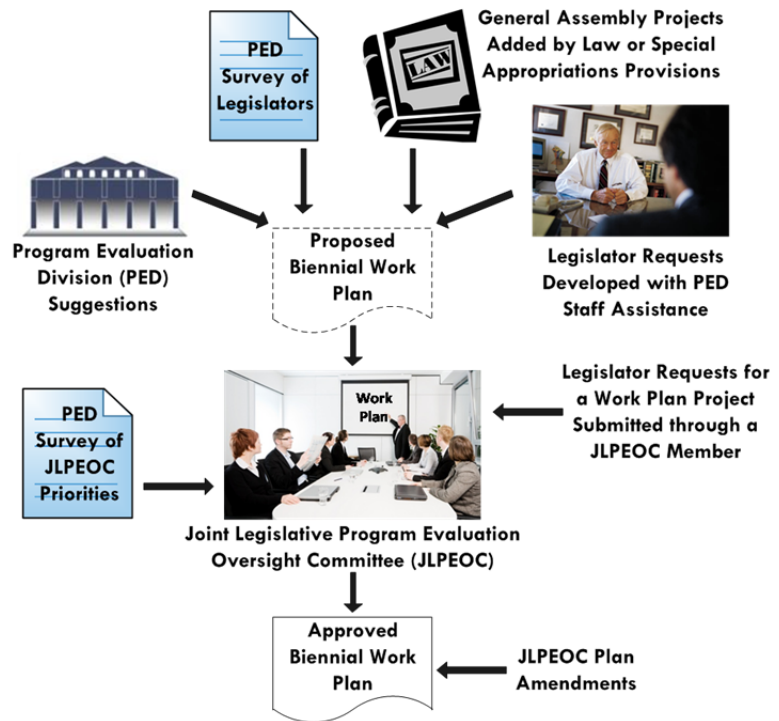


² Ensuring the Public Trust 2015: Program Policy Evaluation's Role in Serving State Legislatures. Retrieved from <http://www.ncsl.org/legislative-staff/nlps/survey-ensuring-the-public-trust.aspx>.

Program Evaluation Process



Process for Determining Report Topics



Summary of PED Reports Released to Date

Year	Report Directed By	Number of Reports Released
2008	Act of General Assembly	2
2008	JLPEOC Work Plan	7
2009	Act of General Assembly	1
2009	JLPEOC Work Plan	6
2010	Act of General Assembly	6
2010	JLPEOC Work Plan	4
2011	Act of General Assembly	8
2011	JLPEOC Work Plan	3
2012	Act of General Assembly	9
2012	JLPEOC Work Plan	4
2013	Act of General Assembly	3
2013	JLPEOC Work Plan	7
2014	Act of General Assembly	3
2014	JLPEOC Work Plan	12
2015	Act of General Assembly	2
2015	JLPEOC Work Plan	11
2016	Act of General Assembly	2
2016	JLPEOC Work Plan	10
Total Reports Released to Date		100

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North Carolina Should Weigh Continued Investment in the Global TransPark Authority and Consider How to Repay the Escheat Fund Loan*

Programs for Children, Youth, and Families Need Guiding Framework for Accountability and Funding^

Statutory Changes Will Promote County Flexibility in Social Services Administration*^

Purchasing Consortiums and Merging Community Colleges Could Save \$26.2 Million Over Seven Years

Child Nutrition Programs Challenged to Meet Nutrition Standards, Maintain Participation, and Remain Solvent

Compared to Other States' Retirement Plans, TSERS is Well Funded and Its Plan Features Are Typical or Less Generous^

Selling 25 Underutilized Aircraft May Yield Up to \$8.1 Million and Save \$1.5 Million Annually

Addressing Deficiencies in State Purchasing and Contracting

High School Graduation Project Requirement Should Remain a Local School District Decision*

UNC Enrollment Change Funding Formula Needs Documentation and a Performance Component

University Distance Courses Cost More to Develop Overall but the Same to Deliver as On-Campus Courses

Feasibility of Restructuring Budget and Financial Management of North Carolina State Government^

Eliminating the Underground Storage Tank Cleanup Backlog Will Require at Least \$549 Million

North Carolina's Water and Wastewater Infrastructure Funding Lacks Strategic Focus and Coordination

Accountability Gaps Limit State Oversight of \$694 Million in Grants to Non-Profit Organizations

Department of Environment and Natural Resources Wetland Mitigation Credit Determinations

Enhanced Services Package Implementation: Costs, Administrative Decision Making, and Agency Leadership

Controlling the Cost of Medicaid Private Duty Nursing Services

North Carolina's Alcohol Beverage Control System Is Outdated and Needs Modernization*

Project Management Lapses and Planning Failures Delayed Court Technology Improvements

Consolidating Agricultural Research Facility Management Would Improve Efficiency and Effectiveness

Improving Regional Economic Development through Structural Changes and Performance Measurement Incentives

Doubtful Return on the Public's \$141 Million Investment in Poorly Managed Vehicle Inspection Programs

Caring for Previously Hospitalized Consumers: Progress and Challenges in Mental Health System Reform

Compromised Controls and Pace of Change Hampered Implementation of Enhanced Mental Health Services

*denotes NLPES Impact Award

^denotes NCSL Notable Document

Cyclical Reports

How North Carolina Compares

Legislation Enacted Based on PED Reports

Report Summaries and Action Taken by Year

2016 Reports

Timeliness of Medicaid Eligibility Determinations Declined Due to Challenges Imposed by NC FAST and Affordable Care Act Implementation

Summary: In North Carolina, county departments of social services (county DSS offices) perform Medicaid eligibility determinations under the supervision of the Department of Health and Human Services (DHHS). County DSS offices failed to meet North Carolina's timeliness standard for processing Medicaid applications in Fiscal Years 2013–14 and 2014–15. The decrease in timeliness during these years coincided with a workload increase for county DSS offices stemming from conditions created by North Carolina Families Accessing Services through Technology (NC FAST) implementation and enactment of the Affordable Care Act. NC FAST offers DHHS the opportunity to proactively manage and monitor county DSS offices, yet the department needs additional resources and authority to hold counties accountable. The General Assembly should authorize DHHS to intervene and take over county administration of Medicaid eligibility determinations when warranted; direct DHHS to report on the timeliness of determinations for Fiscal Years 2015–16 and 2016–17; and appropriate \$300,000 to DHHS to support utilization of NC FAST data for performance measurement and evaluation.

As a result of this study:

Legislation

Session Law 2016-94, Section 12H.17 requires DHHS to report on the timeliness of Medicaid eligibility determinations for Fiscal Years 2015–16 and 2016–17; sets standards for timely decision and processing of applications; and establishes corrective action measures for county departments of social services that fail to meet either average processing time standards, percentage processed timely standards, or both standards.

Actions

- DHHS submitted the required report for the 2016–17 fiscal year providing information on the timeliness of Medicaid eligibility determinations by county departments of social services.
- Effective January 1, 2017, DHHS will monitor the timeliness of Medicaid eligibility determinations by county departments of social services and take corrective actions according to state law if necessary.
- DHHS is in the process of filling the seven new positions authorized by the General Assembly to support improved utilization of NC FAST data in assisting county departments of social services.

Opportunities Exist to Increase the Accountability and Independence of the Board of Review

Summary: Session Law 2015-238 directed PED to study the value of the Board of Review, the entity that hears higher authority appeals of unemployment benefit determinations. PED found that elimination of the higher authority appeals function or the Board would not result in any General Fund savings and that both the function and the entity provide benefits. However, the Board is dependent on Division of Employment Security (DES) staff, lacks policies and procedures, and does not track necessary data. The General Assembly should transfer staff from DES to the Board; direct the Board to develop policies and procedures; and direct DES to work with the Board to track and collect necessary data.

As a result of this study: House Bill 961/Senate Bill 781 (2015–16) proposed enhancing the independence and efficiency of the Board of Review. This legislation was not enacted. At its December 2016 meeting, JLPEOC approved a motion to recommend this legislation for introduction in the 2017 session.

Enhanced Oversight of Service Contracts Can Help Ensure Cost-Effective Performance

Summary: State agencies are responsible for each of three phases of contract procurement: sourcing evaluation, contract formation, and contract management. PED found that state agencies are not ensuring procurement of contracted services achieves best value. PED examined 133 contracts for high-value services with a total award value of \$1.24 billion and found \$511 million stemmed from non-competitive practices. State agencies are not adequately adhering to best practices with regards to documenting the basis for their decisions to contract with private providers; not including all necessary attributes of an effective service contract during the procurement process; and not ensuring compliance with terms and conditions. State-level monitoring by the Department of Administration's Division of Purchase and Contract (P&C) has also failed to contribute to achievement of best value. The General Assembly should require state agencies to submit business cases for high-value services to P&C for review and approval in accordance with established criteria and direct P&C to implement a system to monitor state agency-administered contracted services.

As a result of this study: [House Bill 976/Senate Bill 789](#) (2015–16) proposed enhancing oversight of state service contracts. This legislation was not enacted. At its December 2016 meeting, JLPEOC approved a motion to recommend this legislation for introduction in the 2017 session.

PED's Review of the North Carolina Guaranteed Admissions Program (NCGAP) Report

Summary: Session Law 2015-241 established the North Carolina Guaranteed Admissions Program (NCGAP), a deferred admissions program for postsecondary students identified as academically at risk. In January 2016, JLPEOC directed PED to assess the methodology and accuracy of conclusions presented in a legislatively mandated report submitted by the UNC Board of Governors and the State Board of Community Colleges on potential program impacts of NCGAP. PED's review of the NCGAP report found several shortcomings and concluded it may understate community college cohort six-year graduation rates; used flawed measures of intent to attend a university in its sample selection process; excluded important variables in its regression model; failed to consider recent efforts to increase the success of transfer students; understated potential savings to students; may not adequately measure all student debt; estimated decreases in enrollment at UNC institutions without recognizing simultaneous increases in community college enrollment and degree production; and failed to support its estimate of "tens of millions of dollars" being necessary to advise NCGAP-participating students.

As a result of this study:

- The NC Community College System (NCCCS) is proposing a community college transfer incentive as part of its 2017 legislative agenda. Under this incentive, a student who completes an associate degree in arts, fine arts, science, or engineering at a NC Community College and transfers to a UNC constituent institution would receive \$2,500 per year for up to two academic years.
- In addition, NCCCS is continuing conversations with UNC-General Administration on ways to partner on programs such as dual enrollment as well as reviewing partnerships already in place between community colleges and universities to determine if those programs should be expanded.

Allotment-Specific and System-Level Issues Adversely Affect North Carolina's Distribution of K-12 Resources

Summary: North Carolina distributes state funds for the operation of K-12 public schools through a system consisting of 37 different allotments, each of which reflects a component of the education delivery model. For example, there are separate allotments for classroom teachers, textbooks, administration, and transportation. In Fiscal Year 2014–15, the Department of Public Instruction distributed \$8.4 billion in state funds to Local Education Agencies and charter schools through the allotment system. PED found issues with individual allotments or issues that span numerous allotments, ranging from unintended consequences of particular methods and formulaic policies and procedures to a lack of rationale for the factors used to determine how resources are distributed. PED also identified deficiencies with the allotment system as a whole resulting from overall system complexity and lapses in the control environment. Based on these findings, the General Assembly should either overhaul the system for how resources are distributed by transitioning to a weighted student funding model that uses individual students as the building blocks for developing a state's education budget or reform the current system by addressing individual allotment deficiencies and providing direction to improve transparency and accountability.



As a result of this study: At its December 2016 meeting, JLPEOC recommended legislation based on this report for introduction in the 2017 session.

Most Departments' Spans of Control and Number of Organizational Layers Do Not Meet Recommended Levels

Summary: Spans of control refer to the number of positions a supervisor oversees. Organizational layers refer to the number of levels in an organization. To justify the added costs of management positions, each manager should oversee a sufficient number of subordinates. In the 1990s, the Office of State Budget and Management (OSBM) recommended an overall statewide minimum span of control ratio of 1:8 and a maximum of seven organizational layers. PED found that, at present, only 1 of 21 principal state departments meets the recommended span ratio and 10 departments have more than the recommended number of layers. The executive offices of state departments consist of 237 positions, which on average supervise approximately six positions. PED also found OSBM and the Office of State Human Resources (OSHR) provide limited guidance on structuring departments. The General Assembly should direct OSHR to monitor spans and layers on an ongoing basis and direct OSBM to conduct studies of these topics every five years; these studies could be used as the basis for requiring departments to justify deviations from statewide benchmarks.

As a result of this study: At its December 2016 meeting, JLPEOC instructed staff to draft legislation based on this report's recommendations.

Medicaid Program Integrity Section is Not Cost-Effectively Identifying and Preventing Fraud, Waste, and Abuse

Summary: The Program Integrity (PI) Section of North Carolina's Medicaid program is charged with detecting and preventing fraud, waste, and program abuse and ensuring that taxpayer dollars are used appropriately. PED found that the number of fraud referrals made by the PI Section has declined in recent years due in part to a lack of access to valid and reliable claim payment data. Additionally, the lack of a formal risk assessment process and performance management information has limited the Section's cost-effectiveness. Finally, the PI Section is neither effectively monitoring Medicaid recipient eligibility determinations nor effectively utilizing available information gleaned from reviews of eligibility determinations and medical service claims. The General Assembly should amend state law to adopt a uniform methodology to measure the severity of errors; provide incentives for county social services departments to ensure accuracy of eligibility determinations; require the identification of alternatives to increase amounts recouped from overpayments and percentage of fraud referrals accepted; develop a corrective action process for providers selected for enhanced oversight; and produce an annual performance report and work plan.

As a result of this study: At its November 2016 meeting, JLPEOC endorsed this report's recommendations and referred the report to the Joint Legislative Oversight Committee on Medicaid and NC Health Choice.

Funding for North Carolina's Community Colleges: A Description of the Current Formula and Potential Methods to Improve Efficiency and Effectiveness

Summary: The majority of state funding for North Carolina's 58 community colleges is distributed via a funding formula based on enrollment. North Carolina's formula is more sophisticated than those used in some other states because it uses a tier system to account for differences in programs and levels of study. PED found that the funding formula is functional and generally acceptable to institutions and the State Board, though college presidents expressed concerns about the amount of funding in general. If the General Assembly wishes to change the current funding formula to improve efficiency and effectiveness, it could consider initiatives to increase the equitable distribution of institutional and academic support funds; improve funding stability through the use of a stop-loss provision and by funding the Enrollment Growth Reserve; align tier funding with course costs; refine the existing performance-based funding system; and add needs-based funding to the enrollment portion of the formula.

Special Report: Common PED Findings and Recommendations

Summary: PED looked back on its collective work and noticed commonalities among agencies and programs examined and potential root causes of concern that the General Assembly could address in partnership with agencies and local governments. PED hopes agencies and localities will use this report to help preempt potentially critical future evaluations.

North Carolina Should Dispose of Unneeded Real Property and Improve Portfolio Management to Reduce Costs

Summary: North Carolina's Department of Administration (DOA) is responsible for managing the State's portfolio of real property, consisting of nearly \$28 billion in state-owned buildings and land and \$65 million in annual expenditures for leased space. From a sample of 49 state-owned and leased properties, PED identified unneeded properties that could generate an estimated \$14.3 million in one-time revenue and provide \$2.6 million in future cost avoidance. PED found the State lacks a systematic process and the data to identify unused and underutilized real property and found DOA has not implemented

portfolio management practices. The General Assembly should direct DOA to actively manage the State's portfolio of real property; improve the completeness, accuracy, and security of the State's inventory of real property; dispose of the unneeded properties identified in this report; and determine if suitable state-owned space can meet lease requests. The General Assembly should also modify state law to require state agencies to collect, track, and report data on state-owned and leased space and maintain a current facilities management plan.

As a result of this study:

Legislation

Session Law 2016-119 required DOA to actively manage the State's portfolio of real property; required measurement of the current utilization of state-owned facilities; ensured the accuracy of the real property inventories maintained by DOA; and ensured that the use of state-owned space is maximized before leases are entered into or renewed.

Actions

- Thirteen properties identified for disposal by PED's report have either been sold, are under contract, or are on the market. Combined revenue generated by the properties that have been sold or are currently under contract is approximately \$6 million.
- Two of the leases highlighted by PED as opportunities to optimize utilization have been terminated and relocated, generating annual savings of approximately \$54,000.
- DOA contracted with CBRE, Inc. to evaluate the State's current real estate procedures and management structure and to advise how the State can increase efficiencies, reduce costs, and improve service delivery through better real estate management practices. In November 2016, CBRE issued its Phase 1 deliverable, which focused on three recommendations:
 - centralized management of all real estate functions by the State Property Office;
 - a more robust and dynamic data management platform; and
 - updated space standards that reflect current industry trends.
- Agencies are now required to provide data on utilization in state buildings and leases they occupy using new space standards effective December 1, 2016.

At the time of this publication's release, 13 of the unneeded properties identified by PED's 2015 report have been sold, are under contract, or are on the market.



Unfunded Actuarial Liability for Retiree Health is Large, but State Could Save Up to \$64 Million Annually by Shifting Costs to Medicare Advantage Plans

Summary: North Carolina's Retiree Health Benefit Fund contributes the State's share of retiree premiums to the State Health Plan. Unfunded liability for the fund is \$25.5 billion, and North Carolina is not a strong performer on measures used to compare the funded status of states. Several options to reduce the unfunded liability exist: increasing appropriations, shifting costs to the federal government, transitioning to a defined contribution model, reducing the number of individuals eligible, requiring contributions from active employees, and increasing the amount retirees pay for the benefit. To address the unfunded liability, the General Assembly should direct the State Health Plan to shift costs to the federal government by requiring eligible retirees to be on Medicare Advantage plans, generating an estimated savings of up to \$64 million annually, and could appoint a joint committee to determine which other options to pursue in light of financial and legal considerations.

As a result of this study:

Legislation

House Bill 1027/Senate Bill 808 (2015–16) proposed establishing a joint committee to study the unfunded liability of the Retiree Health Benefit Fund. This legislation was not enacted. At its December 2016 meeting, JLPEOC approved a motion to recommend this legislation for introduction in the 2017 session.



Actions

- The Department of State Treasurer agrees that maximum participation of eligible retirees in the Medicare Advantage plans can generate value to participants and the State. The State Health Plan intends to improve Medicare Advantage participation rates by auto-enrolling all Medicare primary retirees in a Medicare Advantage Plan during each annual open enrollment period. This enrollment strategy can be implemented by the State Treasurer and does not require legislative action.
- The Department of State Treasurer supports any forum charged with investigating options for reducing the unfunded liability of the Retiree Health Benefit Fund.

North Carolina Should Centralize Management of State Employee Supplemental Insurance Benefits

Summary: In addition to offering standard benefits such as health insurance, North Carolina offers state employees the option of purchasing supplemental insurance plans through two separate mechanisms: the NCFlex program, which is administered through the Office of State Human Resources and uniformly available to all eligible state employees, and employee insurance committees, which are housed within individual agencies and universities. PED found employee insurance committees are ineffective and have failed to manage the selection of supplemental insurance products. The separation of these committees and NCFlex results in overlapping and duplicative supplemental insurance offerings and makes product comparison and selection challenging for state employees. In addition, weak oversight and management of supplemental insurance elections and payroll deductions by agencies and universities presents risks to employees and the State. The General Assembly should centralize supplemental insurance benefits by creating a single committee that would oversee all supplemental insurance offerings, including the NCFlex program.

As a result of this study: House Bill 966/Senate Bill 782 (2015–16) proposed clarifying the selection and strengthening the functioning of employee insurance committees. This legislation was not enacted.

North Carolina Should Eliminate the Use of Personal Services Contracts in Favor of Using Existing Mechanisms

Summary: In order to ensure open competition and transparency, the procurement of goods and services by North Carolina state agencies and institutions is subject to numerous laws, rules, and regulations. PED found that agencies and institutions have circumvented state law when procuring personal services and have also compensated contractors at high rates. In addition, Executive Branch agencies have violated state law by not obtaining approval for information technology (IT) personal services contracts, and the Office of Information Technology Services (OITS) lacks a process to ensure compliance. Personal services contracts are unnecessary because mechanisms with greater oversight already exist. The General Assembly should enact legislation prohibiting the use of personal services contracts; requiring Executive Branch agencies to use these existing mechanisms; and requiring OITS and the Office of State Budget and Management (OSBM) to approve the procurement of IT services from individuals, report on a biennial basis, and conduct compliance reviews.

The General Assembly directed state agencies to use the Temporary Solutions program when utilizing temporary employees to perform non-IT-related work.

As a result of this study:

Legislation

Session Law 2015-241, Section 26.2 mandates personal services contracts for executive branch agencies shall be subject to the same requirements and procedures as service contracts; no IT personal services contract, nor any contract that provides personnel to perform IT functions regardless of the cost of the contract, may be established or renewed without written approval from the Department of Information Technology and OSBM; and all State agencies that utilize temporary employees to perform work that is not IT-related shall employ them through the Temporary Solutions program administered by the Office of State Human Resources (OSHR).

Actions

- OSHR has developed a new Temporary Employment Policy which includes a purpose statement, definitions, roles, responsibilities, and general provisions. The final policy was approved by the State Human Resources Commission on October 6, 2016 with an effective date of November 1, 2016.
- The transition of all temporary employees to Temporary Solutions is complete for all state agencies with the exception of the Department of Agriculture and Consumer Services and the Department of Natural and Cultural Resources. The transition will be completed in phases to ensure agency-specific business operations are not interrupted.
- The State Human Resources Director will review all approved exceptions on an annual basis to determine if the exception is still warranted and to ensure that agencies are adhering to the Temporary Employment Policy. To date, 10 exceptions have been granted to eight different agencies.
- OSHR has developed a new tracking system to capture the employment data of temporary employees provided to state agencies by private staffing companies. State agencies will be required to submit this data to Temporary Solutions on a quarterly basis. The data will be combined with employment data of temporary employees within the BEACON system to identify temporary employment trends within state government.

Licensing Processing Fees Are Inequitable; Permit DOI Vendor to Charge Different Processing Fees Based on Effort and Cost

Summary: The Department of Insurance's (DOI's) Agent Services Division (ASD) issues licenses to the insurance industry, bail bond industry, and non-insurance business entities. DOI entered into a contract with Pearson VUE in December 2011 to provide administrative services for all license types regulated by the department. PED found that Pearson VUE's licensing processing fees are disproportionate to the relative cost of processing the different types of license applications. PED also found DOI has improved licensure services through outsourcing and ASD continues to work with Pearson VUE to address licensee concerns. The General Assembly should direct ASD to issue a request for proposal for licensing administrative services that allows the contractor to charge different processing fees based on the cost and effort necessary to process licenses for the different industries.

As a result of this study:

Legislation

House Bill 196/Senate Bill 120 (2015–16) proposed requiring DOI to include differential license processing fees when issuing its next request for proposal for a licensing administrative services contract. This legislation was not enacted.

Actions

- ASD reviewed the current statutory language and determined it already provides sufficient statutory authority for contractors to submit bids that included different processing fees based on the effort necessary to process different types of licenses.
- Subsequently, a request for proposal for a contract that included the provision of license application processing after the receipt of an application was accepted by ASD. The new contract period begins January 2, 2017 and includes different processing fees based on the effort necessary to process licenses for the insurance industry, non-insurance business entities, and the bail bond industry.

North Carolina Should Discontinue the Economic Development Tiers System and Reexamine Strategies to Assist Communities with Chronic Economic Distress

Summary: The economic development tiers system ranks North Carolina counties according to an index of economic measures and low-population/high-poverty adjustments. The Department of Commerce assigns each county a designation of Tier 1, Tier 2, or Tier 3, with Tier 1 counties being the most economically distressed. The system was created to distribute business tax incentives but that program expired in 2014, and currently the only incentives awarded through its use are discretionary grants. Fifteen state programs use the tiers system to distribute resources but these programs are not directing more resources to the most economically distressed areas. The system has been altered incrementally during the past 30 years but components of its formula still distort identification of economic distress. The General Assembly should discontinue the economic development tiers system for all non-economic development programs by July 1, 2017; sunset the system for all economic development programs as of July 1, 2018; and form a legislative commission to reexamine the State's strategy for identifying and assisting economically distressed communities.

As a result of this study: House Bill 1082/Senate Bill 844 (2015–16) proposed eliminating the use of the economic development tier structure. This legislation was not enacted.

Implications of Funding Alcohol and Substance Abuse Treatment or Prevention with Alcohol Tax Earmark

Summary: The impetus for this study was a request from the Alcoholic Beverage Control (ABC) Commission to the General Assembly to redirect the \$1.4 million alcohol tax earmark from the Department of Health and Human Services (DHHS) and substance abuse treatment services to the ABC Commission's underage drinking prevention initiative. During the course of this project, the ABC Commission approved an increase in the bailment surcharge, a fee that funds the Commission's operations, to pay for the underage drinking prevention program and therefore no longer needs the DHHS earmark. This report first details how DHHS uses the \$1.4 million alcohol tax earmark and the potential consequences of redirecting the funding to the ABC Commission. Next, the report describes the ABC Commission's past and present efforts to create and fund an underage drinking program, called Talk It Out. Finally, this report presents actions the General Assembly could take to ensure the Talk It Out program is successful.

Volunteer Fire and Rescue Finances

Summary: The 2013–15 Program Evaluation Division work plan directed the division to review state-administered funds related to fire, rescue, and emergency management services departments, including the eligibility criteria for these funds, benefits received, and oversight of funds. During this evaluation, PED issued four reports.

The General Assembly enacted legislation to strengthen oversight and management of state-administered funds for volunteer fire and rescue departments.

- **Local Boards and Associations Administer Firefighters' and Rescue Squad Workers' Relief Funds with Limited State Oversight.** The Firefighters' Relief Fund (which has a state and local component) and the Rescue Squad Workers' Relief Fund provide benefits to firefighters and rescue personnel. Relief fund money is not being spent by local boards and non-profit associations at the rate intended by the General Assembly, has been spent on non-permitted uses, and is being invested without regulation. The General Assembly should either consolidate the state and local firefighters' relief funds and make administration of that consolidated fund along with the Rescue Squad Workers' Relief Fund the responsibility of the Department of Insurance (DOI) or improve oversight of all relief funds under their current administrative structures.
- **Revenue and Cost Trends Indicate Deficit in Volunteer Safety Workers' Compensation Fund in FY 2020–21.** The Volunteer Safety Workers' Compensation Fund provides workers' compensation benefits to emergency first responders for compensable injuries or deaths. Without an increase in the revenue base, annual Fund expenditures will exceed total assets beginning in Fiscal Year 2020–21. To help maintain the long-term health of the Fund, the General Assembly should direct the State Fire and Rescue Commission to increase annual member premium income, modify DOI's actuarial responsibilities with regard to the Fund, require the commission to enhance the Fund's cost-containment efforts by using a more data-driven approach, and amend statute to clarify Fund eligibility conditions.
- **Department of State Treasurer Should Strengthen Its Oversight of the Firefighters' and Rescue Squad Workers' Pension Fund.** The Firefighters' and Rescue Squad Workers' Pension Fund provides \$170 per month in retirement benefits. The Pension Fund is adequately funded, but the State's annual required contribution now exceeds the amount of property insurance premium tax proceeds going to the General Fund. The Department of State Treasurer overstated appropriation requests due to overly conservative actuarial assumptions; accepted delinquent member contributions without collecting additional costs to compensate for lost investment earnings; and minimally enforced the prohibition against paying benefits to members still working as firefighters or rescue workers. The department is taking steps to address these issues, and the General Assembly should require annual reports on its progress.
- **Improved Oversight of Volunteer Fire Department Fund and Volunteer Rescue/EMS Fund Needed; \$8 Million Surplus Found.** The Volunteer Fire Department Fund and Volunteer Rescue/EMS Fund provide matching grants for fire and rescue departments to purchase equipment and make capital improvements. DOI's failure to compare actual to projected receipts for both grant programs has resulted in an \$8 million surplus in the Volunteer Fire Department Fund. Additionally, DOI's oversight of the grant award and distribution process could be improved. The General Assembly should determine how to apply the surplus in the Volunteer Fire Department Fund and direct DOI to improve its oversight of both grant programs.



As a result of this study:

Legislation

- **Relief Funds.** Session Law 2014-64, Section 1 provided guidance on minimum and maximum local relief fund balances, required local relief fund boards and statewide associations to act as prudent trustees of relief funds and report to DOI, and required DOI to create a new database of relief fund expenditures and to provide annual reporting.
- **Workers' Compensation.** Session Law 2014-64, Section 2 required DOI to conduct an annual actuarial study of the workers' compensation fund; provided a list of requirements for the State Fire and Rescue Commission to include in its contract with the third-party administrator of the workers' compensation fund, including data on cost-containment efforts and the minimum weekly compensation provision; and amended statutes to correspond to practice by removing the requirement that an "eligible unit" be a volunteer unit and by adding certain statewide associations to the list of eligible units.
- **Pension Fund.** Session Law 2014-64, Section 3 required the Department of State Treasurer to report on its progress toward building appropriate lapse assumptions into the State's annual required contribution to the pension fund and collecting timely member contributions to the pension fund. The session law also reduced the percentage of the insurance premium tax going to the Volunteer Fire Department Fund by 5% to allow the Firefighters' and Rescue Squad Workers' Pension Fund to make pension distributions to all participants aged 55 and over regardless of whether they have retired from firefighting or rescue squad work.
- **Grant Funds.** Session Law, 2014-64, Section 4 allowed fire departments with less than \$50,000 of income to match Volunteer Fire Department Fund grants on a lower 25/75 match rate; required DOI to annually report the fund balance at the beginning of the grant cycle, cash receipts through the grant cycle, cash disbursements through the grant cycle, and the fund balance at the end of the grant cycle; changed an eligibility standard to receive grants from the Volunteer Fire Department Fund from serving a response area with a population of 12,000 or less to having a national fire suppression rating of five or higher, regardless of district size; and required that a dissolved department transfer all equipment purchased with grant funds to a successor department and that a department reimburse a fund if the department disposes of equipment purchased with grants.
- Session Law 2015-241, Section 6.20.(b) placed the Rescue Squad Workers' Relief Fund and Volunteer Rescue/EMS Fund under continuation review, a program evaluation conducted by state agencies to justify continued funding of identified programs.

Actions

- **Relief Funds.** DOI reports that with new reporting requirements in place, it is able to perform more detailed oversight of fund operations and uses. The North Carolina State Firemen's Association (NCSFA) reports it has accomplished all actions required by S.L. 2014-64, including providing guidance to local departments and boards on minimum and maximum fund balances, tracking approvals and denials in a database, adding required information to its annual report to DOI, and creating a Relief Fund Guide for local boards. Meanwhile, the North Carolina Association of Rescue & E.M.S., Inc. (NCAREMS) is reporting information on expenditures to DOI and is adding identifying fields to its database that match DOI listings in order to enhance the efficiency and accuracy of data transfers regarding fund expenditures.
- **Workers' Comp.** The publication of PED's report coincided with the Board's decision to raise member premiums for Fiscal Year 2014-15, thereby increasing the income of the Volunteer Safety Workers' Compensation Fund. Trends in claim costs will still need to be monitored to determine if this change will be sufficient to keep the program well-funded. DOI reports that an actuarial study has not yet been completed. The department plans to either conduct

the study itself or contract with a third-party actuary to do so, though additional funding would be needed in the latter scenario.

- **Pension Fund.** The Department of State Treasurer reports the process of building appropriate lapse assumptions should be completed by June 30, 2016 thanks to an appropriation of \$350,000 in the 2015–16 budget for a data audit. However, the department continues to wrestle with a dearth of available funds to complete all necessary IT improvements and ensure they are sustainable. The department also reports that 85% of fire and rescue departments submitted contributions in advance of the March 31, 2016 deadline and that agencies submitting contributions after the deadline were given three choices: 1) to post money to accounts to apply as contributions for future years; 2) to purchase the 2014 contributions pursuant to G.S. 58-86-45; or 3) to have the funds returned. No exceptions to this policy were granted.
- **Grant Funds.** DOI reports that an audit found the Volunteer Fire Department Fund has a fund balance in excess of \$7.7 million as of March 2016 that will be applied towards the next cycle of grant awards. Its controller's office will now be directly involved in determining availability of funds for distribution of grant awards and will ensure that all recommendations are based on documented analyses of current receipts, projected revenues, and unexpended prior year fund balances. Procedures are now in place to rely on actual receipts rather than projected receipts. In addition, DOI reports it has implemented staffing and operational changes to ensure a greater level of oversight with both grant programs. It has drafted modified language regarding transfer of grant equipment by dissolved departments to nearby departments to be included in the payment form signed by grant recipient departments.

Follow-Up Report

In May 2016, PED issued a follow-up report to its series of four reports published in 2013 and 2014 on state-administered funds related to fire, rescue, and emergency management services departments.

North Carolina Needs a Coordinated Strategy to Guide the Changing Landscape of Veterans Programs

Summary: In State Fiscal Year 2013–14, North Carolina state agencies and public higher education institutions operated 23 programs for veterans, 11 of which spent \$53.9 million solely on veterans and their families. However, few of these programs track outcome data, and therefore the State cannot determine the extent to which they improve the lives of their intended beneficiaries. Although the Governor recently created a Working Group on veterans via executive order, North Carolina lacks a coordinated and comprehensive effort to support veterans in the State. The General Assembly should establish the Task Force on Veterans, Service Members, and Their Families in statute; direct this group to develop and implement a statewide strategic plan to track and improve services for veterans and their families; direct state entities to track and report information to the Task Force; and create a legislative oversight committee to monitor and oversee the implementation of this plan.

As a result of this study:

Legislation

House Bill 118/Senate Bill 126 (2015–16) proposed establishing the Task Force for Veterans, Service Members, and Their Families. This legislation was not enacted.

Improved Administrative Program Monitoring by DPI Can Save Over \$19 Million Annually

Summary: In Fiscal Year 2012–13, the State spent \$12 billion to provide a system of free public education. To ensure these funds are effectively used, the Department of Public Instruction (DPI) provides administrative services that indirectly support achievement of student outcomes. The cost to provide these services could be reduced by \$19.3 million annually by changing the formula to allocate funds for school bus operations and by reducing textbook warehouse staffing. An additional \$6.1 million of non-recurring savings could be realized by reducing the statewide fleet of spare school buses and the inventory of replacement parts. Currently, DPI's performance management system does not ensure the effectiveness of its administrative support programs. The General Assembly should direct DPI to take specific actions to improve administrative efficiency and require the department to implement an effective performance management system.

The Appropriations Act of 2014 reduced the allotment supporting transportation personnel and the maintenance of yellow school buses, generating \$4.6 million in recurring savings.

Currently, DPI's performance management system does not ensure the effectiveness of its administrative support programs. The General Assembly should direct DPI to take specific actions to improve administrative efficiency and require the department to implement an effective performance management system.

As a result of this study:

Legislation

- Session Law 2014-100, Public Education Sections 19, 22, and 31 reduced the allotment supporting the purchase of replacement school buses to reflect lower-than-expected bus prices and departmental operational efficiencies; reduced by approximately 1% the total budget for the allotment, which supports the salaries of transportation personnel and the maintenance of yellow school buses; and reduced State General Fund support for DPI by 10%.
- Senate Bill 753 (2013–14) directed DPI to increase the efficiency of school transportation services; revise the state inspection process for county school bus maintenance operations; reduce the operational requirements of the Textbook Services program; jointly develop a plan with the Department of Administration to reallocate unneeded textbook warehouse space to other state agencies; develop and implement a process for monitoring time and resources required for Plant Operation and School Planning services; develop model loss prevention and return-to-work programs; and develop a performance management system. This legislation was not enacted.

Actions

- DPI has begun analyzing school bus parts inventory losses and invoicing LEAs for any discrepancies, which in 2015–16 totaled \$373,792. Sale of used buses and trucks generated \$1.8 million.
- DPI is performing ongoing certification of school bus inspectors and spot-checking the condition of school buses, inspecting about 10% of each county's fleet annually.
- DPI has aggressively solicited agencies with space needs. In addition to the space, DPI can extend support services such as receiving, breakdown, packaging, and shipment to meet agency needs. At present, two agencies, the Department of Commerce and the NC National Guard, have expressed interest in warehouse space.
- Plant Operation and School Planning continue to provide valuable support for the LEAs in North Carolina, especially for those in low-wealth areas of the state. Their services enable schools to operate when emergencies occur and function more efficiently and effectively.
- Action was taken on the Workers' Compensation program. Return-to-work programs were implemented, and the contract was rewritten to separate workers' compensation administration and medical services.
- The State Board of Education has issued a strategic plan; DPI has devised an Operational Planning Tool; and Valuing Individual Performance (VIP), the North Carolina statewide performance management process, has been implemented.

North Carolina Needs to Strengthen Its System for Monitoring and Preventing the Abuse of Prescribed Controlled Substances

Summary: In North Carolina, there are four mechanisms to monitor and prevent the abuse of prescribed controlled substances: oversight of prescribers and dispensers, the Controlled Substances Reporting System (CSRS), Medicaid lock-in, and law enforcement. Currently, prescribing guidelines and continuing education requirements for prescribers are insufficient. The CSRS is underutilized and lacks important features for security and data analysis. Meanwhile, the lock-in program has been non-operational since July 2013, costing the Medicaid program an estimated \$1.3 million to \$2 million. The General Assembly should direct the development and adoption of statewide prescribing guidelines and require continuing education. The General Assembly also should direct the Department of Health and Human Services (DHHS) to modify the contract for the CSRS to improve performance, improve the effectiveness of the Medicaid lock-in program, and develop a strategic plan and performance management system.



As a result of this study:

Legislation

- Session Law 2015-241, Section 12F.16 requires adoption of statewide opioid prescribing guidelines and continuing education on the abuse of controlled substances for practitioners; directs DHHS to improve CSRS access and utilization, improve the CSRS contract, and expand CSRS monitoring capacity; directs the Division of Medical Assistance (DMA) to improve the effectiveness and efficiency of the Medicaid lock-in program; and creates the Prescription Drug Abuse Advisory Committee and directs it to develop a statewide strategic plan and performance management system to combat prescription drug abuse.
- Senate Bill 609 (2015–16) proposed requiring prescribers and dispensers to review information in the CSRS prior to prescribing or dispensing a controlled substance to a patient and to make a violation of that requirement a criminal offense. This legislation was not enacted.

Actions

- In January 2017, the North Carolina Medical Board (NCMB) voted to replace the current opioid position statement with CDC's Guideline for Prescribing Opioids for Chronic Pain, which was published in March 2016.
- NCMB implemented a new continuing medical education requirement to ensure that licensees who prescribe controlled substances, particularly opioids, do so in a manner that is safe, appropriate, and consistent with current standards of care. The new requirement will be effective July 1, 2017.
- The Division of Mental Health, Developmental Disabilities and Substance Abuse Services (DMH/DD/SAS) launched the CSRS redesign on March 17, 2015, providing prescribers and pharmacists with more intuitive control of the site as well as new features like password reset, registrant's profile update, practitioner's prescribing history, and new easy-to-read reports.
- DMH/DD/SAS has negotiated, developed, and executed a contract with Health Information Designs that included a 17.5% reduction (\$46,892) for the cost of maintenance and operation of the CSRS system.
- DMH/DD/SAS has been involved in a number of analytical projects to provide accurate and timely controlled substances prescribing data to stakeholders across the state.
- Per legislation, DMA will conduct an audit within six months of implementation of changes to the Medicaid lock-in program and report on fiscal impact within one year of implementation. DHHS submitted the DMA Legislative

Report: SL 2015-268, Section 4.4. (Medicaid Lock-In Program) to JLPEOC on September 30, 2016.

- In September 2014, North Carolina was invited to participate in the National Governors Association Policy Academy on Reducing Prescription Drug Abuse, which resulted in the development of North Carolina's Strategic Plan to Reduce Rx Drug Abuse. In accordance with Session Law 2015-241, Section 12F.16(m), the DHHS Prescription Drug Abuse Advisory Committee (PDAAC) was established in early 2016.

Performance Measurement and Monitoring Would Strengthen Accountability of North Carolina's Driver Education Program

Summary: In response to a 2010 review by PED, the General Assembly passed reforms in 2011 that reaffirmed the responsibility of the Department of Public Instruction (DPI) to administer the driver education program. While generally responsive to the 2011 reform law, DPI's strategic plan lacks objectives and quantitative performance indicators. In addition, DPI does not have a uniform method to deliver driver education statewide, performs no monitoring of Local Education Agency (LEA) instructors, and failed to conduct a valid pilot project for testing the effectiveness of online versus traditional instruction. The General Assembly should require statewide performance measures and a data-driven outcome monitoring system for driver education as well as a feasibility study on offering uniform online classroom driver education.

As a result of this study:

Legislation

- House Bill 72/Senate Bill 91 (2015–16) proposed requiring the School of Government at the University of North Carolina to coordinate a working group charged with developing standards for state agencies to use when designing and implementing pilot projects mandated by the General Assembly and to require the Office of State Budget and Management to adopt rules implementing the standards. This legislation was not enacted.
- House Bill 1038/Senate Bill 751 (2013–14) proposed requiring the State Board of Education to establish and utilize performance indicators; DPI to establish a follow-up information management system; the Department of Transportation to study the cost and feasibility of delivering driver education through electronic means; and the School of Government at the University of North Carolina to establish standards for use by all departments, agencies, bureaus, divisions, and institutions of the State when conducting and completing pilot projects requested by the General Assembly. This legislation was not enacted.

Actions

- DPI and the Driver Education Advisory Committee are in the final stages of developing a list of Performance Indicators that would create measurable benchmarks for LEAs to self-measure. These measures will be equitable regardless of the size of the LEA.
- DPI and the Division of Motor Vehicles (DMV) meet quarterly and have agreed to establish a question bank acceptable to both agencies that will be administered at the driver education class level. Development of a tracking system is being discussed where information would be accessible to DPI and the LEAs to assist in addressing locations and types of collisions and fatalities.
- Once national standards for online driver education are released, DMV and DPI will use them to enhance the program and assist teachers in the classroom.
- A Parental Involvement pilot project is currently being developed by UNC Highway Research.

Revising State Child Support Incentive System Could Promote Improved Performance of County Programs

Summary: The North Carolina Child Support Services (NCCSS) program operates under a state-supervised, county-administered model. Based on federal performance measures, the program ranks only 24th among the 50 states. NCCSS does not effectively use its federal incentive award to promote improved county program performance. Additionally, NCCSS has not established specific spending guidelines and does not track incentive payment expenditures. The General Assembly should direct NCCSS to retain 25% of federal incentive money to improve centralized services and provide employee incentive bonuses and should direct counties to report how incentive payments are being reinvested and maintain their level of expenditures.

As a result of this study:

Legislation

- Session Law 2015-51 required the Department of Health and Human Services (DHHS), Division of Child Development and Early Education and the Division of Social Services, to develop a plan requiring a custodial parent or other relative or person with primary custody of a child receiving child care subsidy payments to cooperate with county child support services programs as a condition of receiving child care subsidy payments.
- Session Law 2015-241, Section 12C.17 directed NCCSS to retain up to 15% of the annual federal incentive payments it receives from the federal government to enhance centralized child support services; establish guidelines that identify appropriate uses for federal incentive funding; and develop an implementation plan.

Actions

- DHHS issued its “North Carolina Child Support Incentives – Proposed Plan,” which resulted from an incentives workgroup with county representation formed in the spring of 2015 and outlines how NCCSS plans to assist local child support agencies in increasing their performance and overall effectiveness.
- NCCSS has also developed an Incentives Guide that includes the incentives performance methodology, incentives overview, suggested use of incentives, and instructions for waivers.
- As a condition of receiving federal incentive funds, each county submitted a plan that is due to NCCSS by August 1 of each state fiscal year documenting how they plan to reinvest incentive money at the county level during the ensuing year.
- NCCSS will report by November 1 each year on how the federal incentive funding has improved program effectiveness and efficiency.

Follow-up Report

In February 2017, PED issued a follow-up report to its evaluation of NCCSS that outlined the program’s timeline of enhancements for increasing the performance and effectiveness of local child support agencies and illustrated the program’s improved performance on the federal performance measures since the publication of PED’s 2014 report.

Overnight Respite Pilot at Adult Day Care Facilities Perceived as Favorable, but Lacked Objective Measures of Success

Summary: Session Law 2011-104 authorized the Department of Health and Human Services to pilot an overnight respite program in four facilities that provide adult day care and directed PED to evaluate its success. Stakeholders perceive the pilot as successful, but only one of the facilities consistently provided overnight respite. PED found the legislative mandate for the pilot and its implementation only met 2 of 10 recommended components of a well-designed pilot program. In addition, the legislative prohibition against using state or Medicaid funding hindered its effectiveness. Furthermore, no organization affiliated with respite care maintains data on the need for the service. The General Assembly should allow the pilot program authorizing overnight respite at adult day care facilities to expire on June 1, 2015, and require state agencies and institutions initiating pilot projects to adhere to standards established by UNC's School of Government.

As a result of this study:

Legislation

- Session Law 2015-52 extended the duration of the overnight respite pilot program and required a more comprehensive evaluation of the pilot program.
- Session Law 2015-241, Section 12.G3.(a) expanded the overnight respite service to adult day care facilities statewide, making it a permanent service, and set the pilot program to be repealed upon the adoption of licensure rules or in June 2017, whichever is earliest. The legislation also allowed these facilities to collect state and Medicaid funding for the service.
- House Bill 72/Senate Bill 91 (2015–16) proposed requiring the School of Government at the University of North Carolina to coordinate a working group charged with developing standards for state agencies to use when designing and implementing pilot projects mandated by the General Assembly and proposed requiring the Office of State Budget and Management to adopt rules implementing the standards. This legislation was not enacted. At its December 2016 meeting, JLPEOC approved a motion to recommend legislation based on this report's recommendations for introduction in the 2017 session.

Actions

- The final report required by S.L. 2015-52 was submitted by DHHS and accepted by the Joint Legislative Program Evaluation Oversight Committee at its September 12, 2016 meeting.

Occupational Licensing Agencies Should Not be Centralized, but Stronger Oversight is Needed

Summary: Occupational licensing agencies (OLAs) are state agencies that regulate the licensure of persons within a particular profession or occupation but do not receive state general revenue and are not subject to legislatively mandated spending restrictions. PED found that transferring regulatory authority or administrative responsibilities from OLAs to a central state agency may not result in improved performance and would likely entail significant implementation costs. PED also determined that there is insufficient state-level oversight to ensure OLAs are efficiently and effectively protecting the public. The General Assembly should establish an Occupational Licensing Commission to assist the General Assembly and OLAs in improving effectiveness and resolving disputes; ensure that the OLAs required to comply with reporting requirements are clearly defined and listed; ensure the complaint process used by OLAs includes specified capabilities and attributes; and assign a legislative committee to evaluate the continuing need for licensing authority for 12 identified OLAs.

As a result of this study: Session Law 2015-286 directs the Joint Legislative Administrative Procedure Oversight Committee to review this report and determine the best way to accomplish its recommendations and improve oversight of occupational licensing boards.

DHHS Should Integrate State Substance Abuse Treatment Facilities into the Community-Based System and Improve Performance Management

Summary: North Carolina's public system for adult substance abuse treatment has two primary components—the community-based system of Local Management Entities/Managed Care Organizations (LME/MCOs) and the three state-operated Alcohol and Drug Abuse Treatment Centers (ADATCs). Separation of ADATCs from the community-based system creates operational silos, which impose challenges to utilization management and continuity of care and limit the State's ability to address service gaps and manage costs. North Carolina also lacks an adequate performance management system that tracks long-term outcomes of public substance abuse treatment. The General Assembly should require the Department of Health and Human Services to integrate ADATCs into the community-based system by transitioning funding to LME/MCOs and requiring LME/MCOs to pay for services at ADATCs. The General Assembly should also direct the Division of Mental Health, Developmental Disabilities, and Substance Abuse Services (DMH/DD/SAS) to strengthen its performance management by tracking long-term outcomes of treatment.

As a result of this study:

Legislation

Session Law 2015-241, Section 12F.12.(a) terminated all state appropriations for state-operated ADATCs beginning with Fiscal Year 2015–16 and instead appropriated funds to DMH/DD/SAS for community services in order to allow LME/MCOs to assume responsibility for managing the full array of publicly funded substance abuse services, including inpatient services delivered through ADATCs. Starting September 18, 2015, all direct state appropriations for ADATCs were terminated, and ADATCs became 100% receipt-supported.

Actions

- Per legislation, 100% of the allocation has been appropriated to DMH/DD/SAS. In Fiscal Year 2015–16, 100% of the allocation was used exclusively to purchase inpatient alcohol and substance abuse treatment services from ADATCs. Currently, in Fiscal Year 2016–17, although 100% of the allocation is appropriated to DMH/DD/SAS, a minimum of 90% of the allocation shall be used exclusively to purchase inpatient alcohol and substance abuse treatment services from ADATCs. In subsequent fiscal years, the percentage of the allocation that shall be used exclusively to purchase inpatient alcohol and substance abuse treatment services from ADATCs shall decrease by 10 percentage points each fiscal year until it reaches zero percent.
- Additionally, DMH/DD/SAS is working with the Government Data Analytics Center to combine data sets to begin to develop consistent data regarding service delivery, frequency, and cost.

The UNC System Needs a More Comprehensive Approach and Metrics for Operational Efficiency

Summary: The University of North Carolina (UNC) is a public, multi-campus university with 16 higher education institutions that differ in size, complexity, and scope. Since 2006, the UNC system has engaged in 11 operational efficiency projects that have saved \$101.2 million to date. Despite these savings, the UNC system lacks important characteristics of a comprehensive approach to operational efficiency. The system also does not use specific metrics that measure the operational efficiency of its constituent institutions and lacks a reliable funding source for these efforts. In addition, most campuses do not track savings from operational efficiency efforts. The General Assembly should direct the UNC system to develop a more comprehensive approach to operational efficiency, including adopting a board policy stating its commitment and goals for these efforts, adopting metrics to track operational performance, and improving chancellor accountability.

As a result of this study:

Actions

- In August 2014, the UNC Board of Governors adopted a Policy on Efficiency and Effectiveness for the UNC system.
- Effective April 1, 2014, an organizational realignment was completed at General Administration to enable UNC to increase its focus on efficiency and accountability efforts.
- In August 2014, the UNC Board of Governors adopted efficiency metrics to use in funding decisions and improve transparency.

Overview of School Choice Options Provided by Colorado's Douglas County School District

Summary: The Joint Legislative Program Evaluation Oversight Committee directed PED to examine Colorado's Douglas County School District (DCSD) to determine whether its approach to school choice can inform state education policy-making in North Carolina. PED identified strategies that DCSD has taken to improve school choice in Douglas County, including expanding home education enrichment services, developing the Choice Scholarship Program, and enhancing partnerships with locally authorized charter schools. The General Assembly should consider several factors in determining whether to implement aspects of the DCSD approach to school choice, including limited student performance data, demographic differences, and statutory changes that would be necessary for implementation. A statewide community engagement and strategic planning process could assist in determining whether the Douglas County approach provides opportunities for improving and expanding school choice options in North Carolina.

As a result of this study:

- Senate Bill 748 (2013–14) proposed codifying the North Carolina Virtual Public School Program and providing for a limited tuition waiver for nonpublic school students. This legislation was not enacted.
- Senate Bill 752 (2013–14) proposed clarifying and amending the procedures for application as a North Carolina Charter School. This legislation was not enacted.
- Senate Bill 754 (2013–14) proposed amending the process for the approval of a charter school application. This legislation was not enacted.

Options for Creating a Separate Department of Medicaid Require Transition Planning

Summary: The Department of Health and Human Services (DHHS) is the single state agency responsible for the Medicaid Program and must operate within federal guidelines. DHHS has broad flexibility to manage the Medicaid Program and has delegated Medicaid administrative functions to the Division of Medical Assistance, other DHHS divisions and offices, other state agencies, and local government agencies. Based on experiences in other states, options exist for changing the organizational structure of the North Carolina Medicaid Program including creating a Department of Medicaid, a Medicaid Program Authority, or a Department of Health Services. Creating a new Medicaid agency in North Carolina has implications for the Medicaid Program, DHHS, and statewide business functions and would require a 12-to-18-month transition period.



As a result of this study: The Joint Legislative Program Evaluation Oversight Committee approved the report and appointed a Medicaid and Health Administration Subcommittee to discuss options for creating a separate Department of Medicaid. The subcommittee recommended legislation, but JLPEOC took no action.

Centralized Fleet Operations Will Improve Management and Oversight of Department of Public Safety Vehicles

Summary: The General Assembly directed PED to evaluate fleet management among major law enforcement agencies. This report focuses on the 2,398 law enforcement vehicles owned and operated by the Department of Public Safety (DPS). The management and oversight of law enforcement vehicles in DPS is fragmented, decentralized, and does not meet best practices. Furthermore, despite a directive to consolidate, DPS has yet to formalize a plan for centralized fleet management operations. The General Assembly should direct DPS to develop a plan and proposal for the implementation of a centralized fleet management program that meets best practice standards.

As a result of this study:

Actions

- DPS currently operates approximately 8,000 vehicles, approximately 3,300 of which are rented from the Department of Administration (DOA). DPS has a fleet management program but it is unable to functionally consolidate because it lacks an Enterprise Resource Planning (ERP) tool through which to funnel all data from the seven to nine operating entities.
- DPS was allocated \$9 million by the General Assembly in 2013 to create an ERP tool using SAP Software but was never authorized to use the funds. DPS then tried to collaborate with the Department of Transportation (DOT) to integrate with its SAP program, but DOT did not have the resources to accommodate DPS.
- DPS contends that due to the size of its motor fleet, its specific vehicle needs, and the fact that DOA controls the ownership and management of about 40% of its vehicles, a more common-sense approach to implementing a centralized motor fleet would be to establish a law enforcement central fleet. Currently, the State Highway Patrol manages its entire 2,500-vehicle fleet using SAP and could easily absorb the roughly 650 vehicles that make up State Capitol Police, Alcohol Law Enforcement, and the State Bureau of Investigation at a much lower cost than a department-wide centralized fleet.

North Carolina Does Not Track Lands Submerged Under Navigable Rivers or Know the Extent of Private Claims

Summary: The Department of Administration (DOA) is charged with managing and controlling the State's submerged lands. DOA does not have a comprehensive inventory of lands submerged under navigable rivers, so the extent to which private parties may hold title to these lands is unknown. Whereas DOA grants and tracks certain types of easements, it does not require easements for many structures built on lands submerged under navigable rivers and does not exercise its authority to lease or convey mineral deposits for most mining on submerged lands. The General Assembly could consider requiring DOA to improve its management and tracking of submerged lands and creating a submerged lands claims process based on a process North Carolina used for 25 coastal counties in the past.

As a result of this study: House Bill 13 (2013–14) proposed requiring improvement of the oversight and management of state-owned submerged lands, including initiating a process to inventory claims on state-owned submerged lands. This legislation was not enacted.

The Division of Public Health Should Remain in the Department of Health and Human Services

Summary: North Carolina's public health system is an intricate network of partnerships between the Division of Public Health and local health departments, state agencies and universities, and other entities. North Carolina's public health system is seen as a model, but the State ranks in the bottom half of states for health outcomes because of high-risk factors. The General Assembly should establish the North Carolina Public Health Council to develop a government-wide action plan and direct the Division of Public Health to explore ways to increase regionalization, increase the use of data, and strengthen quality improvement activities.

As a result of this study:

Actions

- Healthy North Carolina 2020 remains the state health improvement plan. National efforts to develop health improvement plans for states for the period 2020–2030 are expected to begin in 2018.
- The Center for Public Health Quality is now Population Health Improvement Partners and continues to assist North Carolina's public health agencies with quality improvement initiatives. Though the Centers for Disease Control and Prevention defunded the Community Transformation Grant program, the Division of Public Health continues to explore ways to provide regional funding to local health departments as funding becomes available and as local health departments are able to take advantage of these opportunities.

State and Local Improvements Needed for Workforce Development System Integration and Accountability

Summary: North Carolina's workforce development system is a complicated array of 22 programs administered by seven entities that provide services at more than 500 local sites. In addition, state and local program coordination of workforce programs have failed to create an integrated, effective workforce development system. Services offered at local JobLink sites and the level of integration varies, and centers do not take full advantage of technology. State-level leadership by the Commission on Workforce Development has been insufficient to ensure an integrated workforce development system. Further, despite investments in a data system to track participants, there are no statewide performance measures for the workforce development system. The General Assembly should streamline the workforce development system, enhance accountability, strengthen the JobLink system, require increased use of technology, and create a legislative oversight committee to oversee these reforms.

The General Assembly strengthened the workforce development system by streamlining programs, enhancing accountability, strengthening the JobLink Career Center system, and directing agencies to use technology.

As a result of this study:

Legislation

- Session Law 2012-131 streamlined the workforce development system, enhanced accountability by requiring statewide performance measures, strengthened the JobLink Career Center system, directed agencies to use technology to integrate programs and improve access to services, and created a legislative oversight committee to oversee reform.
- Senate Joint Resolution 837 (House Joint Resolution 1004) (2011–12) encouraged the reduction of the number of local workforce development areas from 23 to 16 by aligning them with Councils of Governments. This legislation was not enacted.

Actions

- When PED conducted its evaluation in 2012, the workforce development system consisted of 22 programs administered by seven state agencies. Currently, the system has 17 programs administered by five state agencies.
- In streamlining the workforce development system, the General Assembly eliminated state funding for workforce development programs provided by the Rural Economic Development Center and eliminated state funding for the Displaced Homemakers Program provided by the Department of Administration.
- The Governor transferred the Apprenticeship Program from the Department of Labor to the Division of Workforce Solutions in the Department of Commerce.

Follow-Up Report

In June 2014, PED issued a follow-up report to its evaluation of the workforce development system, illustrating how the system had been streamlined and strengthened as a result of legislation enacted in response to PED's recommendations.



Key Ideas from Five Program Evaluation Division Reports on State-Owned Vehicles and Permanent License Plates

Summary: The General Assembly directed PED to study the effectiveness and efficiency of state fleet management in North Carolina. During this evaluation, PED issued three reports on the status of state-owned vehicles and two follow-up reports on the status of permanent license plates for state and non-state entities.

The General Assembly enacted legislation to limit eligibility for permanent license plates to governmental entities and reform the issuance process.

- **Inadequate Data and Fleet Information Management Weaken Accountability for North Carolina's Vehicles.** This report provided an overview of the number, use, and cost of motor vehicles across state government and found North Carolina lacked adequate information to determine the appropriate size and mix of state-owned motor vehicles for state government needs.
- **Motor Fleet Management Uses Best Practices, but Needs Telematics to Strengthen Accountability.** This report focused on the management of passenger vehicles by the Department of Administration's Motor Fleet Division and found fleet management and accountability could be improved through technology and other enhancements.
- **Ineffective Policies and Diffuse Oversight Result in Inefficient Use of State-Owned Vehicles.** This report described the management of vehicles owned by state agencies and institutions and found weak oversight and limited accountability result in inefficient use of vehicles because no single entity is responsible for ensuring appropriate and efficient use of state-owned vehicles.
- **Follow-up Analysis of Permanent License Plates Owned by State and Non-State Entities.** This report analyzed the registration and oversight of permanent license plates owned by state and non-state entities.
- **Follow-up Report: Reviewing Eligibility for Permanent License Plates Would Strengthen State Oversight.** This report addressed concerns about permanent license plates registered to entities not identified as eligible by statute and the many different types of non-state entities eligible for silver license plates.

State-Owned Vehicles. These reports found North Carolina does not have complete vehicle information and has not used telematics; weak and decentralized oversight by state agencies and institutions causes lapses in accountability and inefficient use of state-owned vehicles; and technology offers opportunities to improve management and oversight. The General Assembly should require all state agencies and institutions to report complete vehicle information to a statewide fleet management information system; direct the Department of Administration (DOA) to install basic telematics services on state-owned passenger vehicles; authorize DOA to supervise the management and operation of state-owned vehicles; and recodify and clarify relevant state laws.

Permanent License Plates. These reports found state law allows certain non-state entities to receive permanent license plates and several obstacles limit the State's ability to ensure whether non-state entities qualify for permanent plates. The General Assembly should consider limiting eligibility for permanent license plates to governmental entities; review the basis for issuing permanent license plates to non-governmental entities; and make statutory changes to ensure entities receiving permanent license plates can be properly identified in Division of Motor Vehicles (DMV) registration records and to ensure vehicles with permanent plates receive safety and emissions inspections.

As a result of this study:

Legislation

- Session Law 2012-159 limited eligibility for permanent license plates to governmental entities and reformed the process by which eligible entities apply for and are issued permanent license plates. As of December 2012, DMV reported a 54% reduction in the number of permanent license plates registered to eligible entities. The Highway Fund will receive additional recurring non-tax revenue from the non-governmental entities that must apply for the standard North Carolina license plate for each vehicle and pay the \$28 annual registration fee.
- Session Law 2013-360 directed the Office of the State Chief Information Officer to develop an implementation plan for establishing a statewide motor fleet management system and to study the feasibility of implementing a tracking system for state vehicles.
- House Bill 1204 (2013–14) authorized the Division of Motor Fleet Management of DOA to develop and implement a pilot project to test the effectiveness and efficiency of using telematics in state-owned motor vehicles. This legislation was not enacted.

Follow-Up Report

In November 2014, PED issued a follow-up report documenting legislative and agency actions undertaken in response to its 2012 report *Follow-up Report: Reviewing Eligibility for Permanent License Plates Would Strengthen State Oversight*. The report specified which entities gained, maintained, or lost eligibility for permanent license plates as a result of legislation enacted in 2012 and 2014 and also highlighted concerns that persist in the issuance and regulation of permanent plates.

Stronger Reporting and Management Structure Would Improve State Bureau of Investigation Vehicle Management

Summary: The State Bureau of Investigation (SBI) in the North Carolina Department of Justice (DOJ) operates 384 motor vehicles. SBI's vehicle management generally followed best practices, but this report identified inconsistent oversight associated with the division's decentralized vehicle management and with internal controls. In addition, the division has not established clear criteria to guide vehicle replacement planning, assignment, and maintenance. Although SBI collects electronic fleet management information, the division does not use the data to optimize fleet management. Based on these findings, DOJ should implement a fleet-management approach for SBI law enforcement vehicles. Elements of implementation should include using electronic vehicle data to enhance business decisions; conducting annual internal vehicle audits that test internal controls and data validity; and revising policies and procedures related to vehicle replacement planning, assignment, and maintenance to make them more explicit.

As a result of this study: Per Session Law 2014-100, Section 17.1.(a-b), SBI operations were transferred to the Department of Public Safety, as Type I and Type II transfers (SBI operations and Criminal Information Systems were transferred in two different categories), as of July 1, 2014.

Merger of the Human Relations Commission with the Civil Rights Division Would Yield Limited Cost Savings

Summary: The General Assembly directed PED to evaluate the Department of Administration's Human Relations Commission and the Office of Administrative Hearing's Civil Rights Division to determine whether there is duplication of services. Although both entities investigate discrimination claims, there is no duplication of duties and services between them. Moving the Commission's fair housing activities to the Division could generate recurring savings, but these savings may be offset by transfer costs. The General Assembly should require the Commission and Division to report annually on their activities and should amend two employment discrimination laws to clarify each entity's enforcement authority.

Operational Changes for State Attractions Could Yield \$2 Million Annually and Reduce Reliance on the State

Summary: The General Assembly directed a review of the management of state historic sites, museums, state parks, aquariums, and the North Carolina Zoo to determine whether administration could be consolidated and to suggest optimal operating schedules for sites. Cost savings and efficiency of site operations could be increased by restructuring site-level management, closing sites partially or entirely, expanding fees, and adopting public-private partnerships with non-profit entities. Analyses indicated consolidating attractions under one of the existing agencies would not enhance effective management nor result in cost savings. The General Assembly should direct coordinating site management at historic sites and parks, adopting a five-day schedule for most historic sites, closing two sites, recording daily visitation data at all parks to determine potential savings from daily or seasonal closure, adopting public-private partnerships with non-profits for the operations of the zoo and aquariums, and expanding public-private partnerships with non-profits and fees to reduce reliance on state funds.

As a result of this study:

Legislation

- [Session Law 2015-241](#) consolidated all state attractions within the Department of Cultural Resources to create the Department of Natural and Cultural Resources (DNCR) and authorized DNCR to use a “dynamic pricing strategy” for establishing admission fees and related activity fees for the state attractions under its purview.
- [Session Law 2012-93](#) required the Department of Cultural Resources to study coordinated management; reduced schedules; more reliable mechanisms for counting visitors; an appropriate operating schedule for Richard Caswell Memorial; and potential savings from admissions fees, corporate sponsorships, or transferring operations at state historic sites. It also required the Department of Environment and Natural Resources to study coordinated management; daily or seasonal reduced schedules; the reliability of visitor calculations; potential savings from admissions fees, corporate sponsorships, or transferring operations at state parks; and anticipated savings of public-private partnerships with non-profits for operations of the zoo and aquariums.

Actions

- In 2014, the Department of Cultural Resources implemented a mandatory public operating schedule of 9:00 am-5:00 pm from Tuesday-Saturday for all its sites, thus closing sites on Mondays and Sundays; reduced the operation schedule at the Richard Caswell Memorial to two days per week (the resultant savings have been applied to the expanded CSS Neuse Civil War Interpretive Center); charged all sites with implementing a minimum of one revenue-generating program per year (as a result, the percentage and amount of non-appropriated support for most sites has increased); and required each institution to conduct one survey per year to solicit feedback from visitors in order to identify ways to improve. In addition, efforts are underway to evaluate costs of individual programming to understand the return on the investment.
- Also in 2014, the Department of Environment and Natural Resources raised the fees at aquariums from \$8 to \$10.95.

Follow-Up Report

In February 2016, PED issued a follow-up report on state attractions that provided an update on legislatively-directed organizational changes affecting DCR (now the Department of Natural and Cultural Resources, or DNCR) and DENR (now the Department of Environmental Quality, or DEQ), including transfer of management of the zoo, aquariums, state parks, and Museum of Natural Sciences from DEQ to DNCR as well as authorization of DNCR to use a “dynamic pricing strategy” for establishing admission fees and related activity fees for the state attractions under its purview.

North Carolina Should Require NC Railroad Company to Pay an Annual Dividend and Strengthen Reporting

Summary: The North Carolina Railroad Company (NCRR) has benefitted from its unique relationship with the State, the corporation's sole shareholder, but the State has not benefitted financially from this relationship. Selling NCRR or the railroad corridor may not be in the best interest of the State because these valuable rail assets and their long-term earnings potential would be lost. The State has limited mechanisms for oversight of NCRR but changing its corporate structure requires a lengthy and complicated process. The General Assembly should amend state law to strengthen reporting by NCRR; require NCRR to pay a one-time dividend of \$15.5 million and, thereafter, an annual dividend to the General Fund; and require NCRR to convey to the State properties not directly related to the railroad corridor so these properties can be sold and the proceeds deposited into the General Fund.

The General Assembly required the North Carolina Railroad Company to issue an annual dividend to the State.

As a result of this study:

Legislation

- Session Law 2013-360 required NCRR to prepare and maintain a strategic plan, develop and implement a performance management system, issue an annual cash dividend to the State, issue a one-time cash dividend of \$15.5 million, and issue a one-time real property dividend.
- Session Law 2014-100 directed the Department of Administration to dispose of four former NCRR parcels located in Carteret County.

Follow-Up Report

In August 2015, PED issued a follow-up report on NCRR that provided an update on progress made by the Department of Administration's State Property Office in conveying the four parcels identified by Session Law 2013-360. The follow-up report also categorized the various projects approved by the Board of Transportation in 2014 and 2015 that were funded by the NCRR dividend and designated for a freight rail and safety fund to support the State's economic development efforts.

Options for the Indian Cultural Center Will Allow the Site to Meet Its Cultural, Recreational, and Economic Development Intent

Summary: The North Carolina Indian Cultural Center has not become what was once envisioned. The site's geography, condition, and size have constrained development, and the current lease structure is problematic. As separate parcels, the site can still serve its initial intent. However, the need to preserve and promote North Carolina American Indian culture remains. The General Assembly should direct the Department of Administration to terminate the leases and dispose of and allocate the four parcels comprising the site and direct the Commission of Indian Affairs to develop a strategic plan for the promotion and preservation of North Carolina American Indian culture.

As a result of this study:

Legislation

Session Law 2013-186 terminated leases at the Indian Cultural Center site and directed the sale or allocation of certain portions of the property.

Actions

The Department of Administration sold Parcel 1 to the Lumbee Tribal Administration on April 30, 2014, for \$350,000. The State Property Office completed the reallocation of Parcels 2, 3, and 4 to the Department of Environment and Natural Resources, and Lumber River State Park is now managing the property. As directed by the General Assembly, \$81,506 of the proceeds from the sale of Parcel 1 were allocated to DENR.

Follow-Up Report

In October 2014, PED issued a follow-up report on the Indian Cultural Center that provided an update on the current and proposed usage of the four parcels as well as a timeline for the sale of Parcel 1 to the Lumbee Tribal Administration.

Contract Agency Vehicle Registration and Titling Services Are Cost Efficient, but Contracts Need Performance Terms

Summary: The report determined the cost-effectiveness of using license plate agency (LPA) contractors to provide vehicle registration and titling services and evaluated the oversight of these contractors by the Division of Motor Vehicles (DMV). Contractors are a cost-efficient way for the State to provide registration and titling services. However, DMV's oversight of contractors is hindered by lack of coordination, communication, and a standardized, performance-based contract. The report recommended the General Assembly direct DMV to implement a standardized, performance-based contract; improve oversight and communications; and outsource registration and titling services provided at the two state offices.

As a result of this study: The Joint Legislative Program Evaluation Oversight Committee (JLPEOC) appointed a subcommittee to hear from DMV and an advisory group representative of LPA contractors on issues raised by the report and other issues related to providing vehicle registration and titling services. JLPEOC moved to continue the suspension of the Commissioner of Motor Vehicles' ability to cancel or amend any commission contracts for any reason other than malfeasance, misfeasance, or nonfeasance until final recommendations have been acted upon by JLPEOC. DMV has long-term plans to establish an extranet site for LPAs.

The General Assembly directed the sale of the Indian Cultural Center property; the State received \$350,000 when the property was sold in 2014.

A Three-Year Emissions Inspection Exemption Would Save North Carolina Motorists \$9.6 Million

Summary: This report is a follow-up to a March 2012 joint study by the Department of Transportation's (DOT) Division of Motor Vehicles and the Department of Environment of Natural Resources's (DENR) Division of Air Quality. This joint study was a result of a recommendation made in PED's 2008 report *Doubtful Return on the Public's \$1.41 Billion Investment in Poorly Managed Vehicle Inspection Programs*. This follow-up found a three-year exemption would not affect the State's compliance with federal regulations and would save North Carolina motorists \$9.6 million annually. However, an exemption would require changes to General Statutes and to the State's Clean Air Act implementation plan. The exemption could take effect as early as January 1, 2014.

As a result of this study: Session Law 2012-199 exempts motor vehicles of the three most recent model years or 1996 or later models with fewer than 70,000 miles from annual emissions inspections and requires DENR to submit for approval the emissions inspection program changes to the United States Environmental Protection Agency as an amendment to the North Carolina State Implementation Plan under the federal Clean Air Act.

Further Reductions to Aviation Programs Are Possible and an Aviation Management Authority is Needed

Summary: The Department of Transportation's (DOT) helicopter and the State Bureau of Investigation's (SBI) airplanes are underutilized. Alternatives should be explored to eliminate the helicopter and reduce the SBI fleet. In addition, the SBI facility could be eliminated and their airplanes could be moved to the DOT facility. This evaluation also found consolidation of passenger air service would not result in an improved level of service. Despite improvements in fleet management practices since 2010, central oversight is still needed to ensure efficient and effective use of state aircraft. As recommended in PED's April 2010 report, the General Assembly should direct the establishment of an Aviation Management Authority in DOT to oversee management of all aircraft owned or operated by the State.

As a result of this study: Session Law 2014-100 directed DOT to sell the Sikorsky S-76C helicopter.



Front Row (left to right): John Turcotte, Larry Yates, Carol Shaw, Sara Nienow, Kiernan McGorty, Chuck Hefren, and Brent Lucas. Second Row (left to right): Emily McCarthy and Josh Love. Third Row (left to right): Pat Madej, Janice Hillanbrand, and Jim Horne. Back Row (left to right): Doris Gilbert and Sean Hamel.

(Photo courtesy of Jesse Mitchell).

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