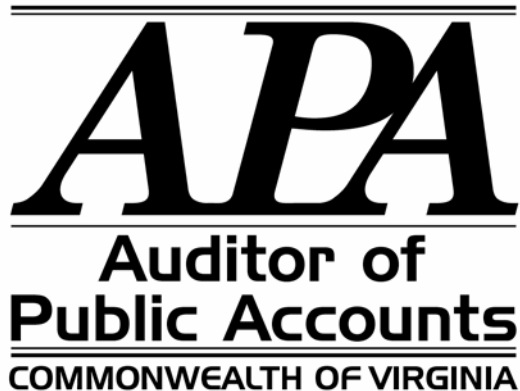


**SOUTHWEST VIRGINIA HIGHER
EDUCATION CENTER
ABINGDON, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2003**



AUDIT SUMMARY

Our audit of the Southwest Virginia Higher Education Center for the year ended June 30, 2003, found:

- proper recording and reporting of transactions for the Center, in all material respects, in the Commonwealth Accounting and Reporting System (CARS) and in the University of Virginia's financial accounting system;
- no matters involving internal control and its operation that we consider material weaknesses; and
- no instances of noncompliance that are required to be reported.

AGENCY BACKGROUND

The Southwest Virginia Higher Education Center (the Center) seeks to strengthen the economy of southwest Virginia through education and training of the workforce. The Center coordinates the development and delivery of continuing education, facilitates the delivery of teacher training programs, and develops specific goals for higher education in the region, in coordination with the State Council of Higher Education for Virginia. The Center has seven academic partners, these include: Emory & Henry College, Old Dominion University, Radford University, the University of Virginia, the University of Virginia's College at Wise, Virginia Highlands Community College, Virginia Intermont College, and Virginia Polytechnic Institute and State University. George Mason University and the University of North Carolina also offer courses at the Center. In addition to promoting economic development and growth, through education, in southwest Virginia, the Center leases out rooms during the year. Special events include training, meetings, trade shows, banquets, interviews, and seminars.

The Center offers more than 65 undergraduate and graduate degree programs through its relationship with its academic partners. Registrations for the 2002-2003 school year are about 19 percent less than the registrations for the 2001-2002 school year because several long-term academic programs ended in spring 2002 and were not offered in fall 2003 and also because several of the academic partners increased their tuition rates in fall 2002.

<u>Total Enrollment (class registrations)</u>	
Fall 1999	1,021
Spring 2000	1,526
Fall 2000	1,576
Spring 2001	1,520
Fall 2001	1,440
Spring 2002	1,314
Fall 2002	1,052
Spring 2003	1,176
Fall 2003	1,112

During the year, the center began administering the Southwest Burley Tobacco Scholarship Program on behalf of the Virginia Tobacco Commission. Revenues and expenses of the Center for the year ended June 30, 2003, were as shown in the following table:

Revenues:	
State appropriations	\$ 1,411,799
Tobacco Foundation scholarship funding	2,428,635
Special event rentals and leased office space	484,239
Other revenues	<u>19,325</u>
Total revenues	<u>\$ 4,343,998</u>
Expenses:	
Compensation and benefits	\$ 725,765
Supplies and services	719,139
Scholarships and fellowships	2,341,140
Utilities	156,110
Depreciation	<u>119,968</u>
Total expenses	<u>\$ 4,062,122</u>

In fiscal 2003, the Center had a budget reduction of its General Fund of \$242,840, which the Center achieved by not filling two vacant positions to save approximately \$50,000, reducing its program development and marketing programs by \$58,000, not funding extended library hours at Virginia Highlands Community College to save \$26,000, and reducing various administrative expenses and equipment purchases by \$29,000. In fiscal 2004, the Center has an additional budget reduction of its General Funds of \$229,159, which the Center will primarily achieve by continuing to eliminate the librarian funding at Virginia Highlands Community College to save \$53,000 and reducing the building improvement and special project budget to save approximately \$200,000.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

May 14, 2004

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Vice Chairman, Joint Legislative Audit and
Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Southwest Virginia Higher Education Center** for the year ended June 30, 2003. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions for the Center in the Commonwealth Accounting and Reporting System and in the University of Virginia's financial accounting system, review the adequacy of the Center's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Center's operations. These procedures included reviews of documents and records at the University of Virginia, which provides administrative support for the Center. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations, over significant cycles, classes of transactions, and account balances. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures and Revenues

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Center's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Center's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that financial information for the Center was properly stated, in all material respects, by the amounts recorded and reported in the University of Virginia's financial accounting system and in the Commonwealth Accounting and Reporting System. The Center records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the University of Virginia's financial accounting system and the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider material weaknesses. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with the Executive Director on May 14, 2004.

AUDITOR OF PUBLIC ACCOUNTS

JHS:whb
whb:49

SOUTHWEST VIRGINIA HIGHER EDUCATION CENTER
Abingdon, Virginia

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As of July 1, 2003

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Marcia Gilliam, Chancellor Appointed, Virginia Community College System
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EXECUTIVE DIRECTOR

Rachel D. Fowlkes