

**STATE COUNCIL OF HIGHER EDUCATION
FOR VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2004**



AUDIT SUMMARY

Our audit of the State Council of Higher Education for Virginia for the period July 1, 2001 through June 30, 2004, found:

- revenues and expenses are properly reported in the Commonwealth Accounting and Reporting System;
- compliance with all applicable laws and regulations; and,
- management has established and maintained internal controls over the revenues and expenditures tested.

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AGENCY HIGHLIGHTS

The State Council of Higher Education for Virginia (SCHEV) is the Commonwealth's coordinating body for higher education. SCHEV's mission, as outlined in the Code of Virginia, is "to promote the development of an educationally and economically sound, vigorous, progressive, and coordinated system of higher education." SCHEV makes higher education public policy recommendations to the Governor and General Assembly in such areas as capital and operating budget planning, enrollment projections, institutional technology needs, and student financial aid. SCHEV also administers a variety of educational programs that benefit students, faculty, parents, and taxpayers.

In Fiscal Year 2004 the Tuition Assistance Grant (TAG) program, which contributes funds for assistance to Virginia students attending in-state private, not-for-profit institutions, accounts for approximately 87 percent of all student financial aid distributed by the Council. The Council also administers the College Scholarship Assistance Program (CSAP) program.

FINANCIAL OPERATIONS

Overview

SCHEV received over \$50 million in funding in fiscal year 2004, with General Fund appropriations representing the largest funding source. Funding has decreased by nearly \$10 million since fiscal year 2002, primarily due to General Fund appropriation reductions taken as a result of mandatory budget reductions. The following tables summarize SCHEV's budgeted revenues and expenses compared to actual results for the fiscal years.

Analysis of Budgeted and Actual Funding

		<u>Fiscal Year 2004</u>		<u>Fiscal Year 2003</u>	<u>Fiscal Year 2002</u>
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Funding</u>	<u>Actual Funding</u>	<u>Actual Funding</u>
General Fund appropriations	\$56,710,943	\$47,669,050	\$47,669,050	\$46,808,314	\$56,321,308
Special revenues	600,000	600,000	332,600	-	-
Federal grants	<u>4,443,322</u>	<u>5,357,846</u>	<u>4,790,426</u>	<u>4,064,646</u>	<u>3,933,694</u>
Total	<u>\$61,754,265</u>	<u>\$53,626,896</u>	<u>\$52,792,076</u>	<u>\$50,872,960</u>	<u>\$60,255,002</u>

Analysis of Budget to Actual Expenses, by Program

		<u>Fiscal Year 2004</u>		<u>Fiscal Year 2003</u>	<u>Fiscal year 2002</u>
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>	<u>Actual Expenses</u>	<u>Actual Expenses</u>
Higher educational student financial assistance	\$ 43,369,854	\$45,413,769	\$ 42,946,353	\$ 43,941,494	\$51,641,944
Financial assistance for educational and general services	7,375,065	1,116,184	476,122	617,695	2,515,341
Higher education academic, fiscal, and facility planning	7,466,489	3,450,477	3,281,984	3,549,489	4,230,008
Higher education federal programs	1,500,000	1,500,000	1,332,858	1,313,824	930,468
Standards of quality	<u>2,042,857</u>	<u>2,146,466</u>	<u>1,738,112</u>	<u>980,378</u>	<u>1,663,341</u>
Total	<u>\$ 61,754,265</u>	<u>\$53,626,896</u>	<u>\$ 49,775,429</u>	<u>\$ 50,402,880</u>	<u>\$60,981,102</u>

The significant difference between the Financial Assistance for Educational and General Services and the Higher Education Academic, Fiscal, and Facility Planning programs original and adjusted budget is due to Appropriation Act mandated transfers that SCHEV must make to other entities. These transfers include funding to higher education institutions for the eminent scholars program and to support the Virtual Library of Virginia.

The Standards of Quality program represents state matching funds for the federal GEAR UP program that provides early awareness and readiness for undergraduate programs to qualified students. Since beginning this program in fiscal year 2001, SCHEV has deposited the majority of its annual appropriation into a VEST account with the Virginia College Savings Plan. The VEST account is currently valued at more than \$8 million dollars with the first withdrawals expected in the fall of 2005 as the first wave of students enter college. Students begin in the program during seventh grade and currently there are about 4,000 students participating.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

February 21, 2005

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

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

We have completed an audit of the **State Council of Higher Education for Virginia (SCHEV)** for the period July 1, 2001 through June 30, 2004. We conducted our overall review in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

Objectives

Our objectives for the audit of SCHEV were to determine that:

- revenues and expenditures are properly reported in the Commonwealth Accounting and Reporting System;
- compliance with all applicable laws and regulations; and,
- management has established and maintained internal controls over the revenues and expenditures tested;

Audit Scope and Methodology

Our audit's primary objectives were to evaluate the accuracy of SCHEV's financial transactions as recorded in the Commonwealth Accounting and Reporting System, review the adequacy of SCHEV's internal controls, and test for compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the SCHEV's operations. 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. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Revenues
Expenses
Payroll
Fixed Assets

We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the audit. We considered control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether SCHEV's controls were adequate, had been placed in operation, and were being followed.

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, regulations, contracts, and grant agreements. 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 SCHEV properly stated, in all material respects, the revenues and expenses recorded in the Commonwealth Accounting and Reporting System. We noted no matters involving internal control and its operation that we consider to be reportable conditions relative to SCHEV's financial records. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect SCHEV's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records.

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 and use of the Governor and General Assembly, management, and citizens of the Commonwealth of Virginia and is a public record.

Exit Conference

We discussed this letter with management at an exit conference held on March, 9, 2005.

AUDITOR OF PUBLIC ACCOUNTS

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STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA
Richmond, Virginia

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