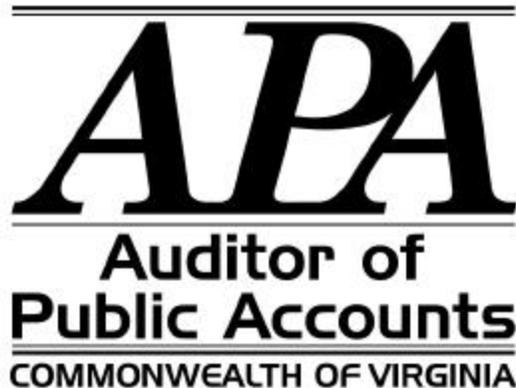


**STATE COUNCIL OF HIGHER EDUCATION
FOR VIRGINIA
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE TWO-YEAR PERIOD ENDED
JUNE 30, 2000**



AUDIT SUMMARY

Our audit of the State Council of Higher Education for Virginia for the two-year period ended June 30, 2000, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving the internal control structure and its operation that we consider material weaknesses; and
- no instances of noncompliance with applicable laws and regulations tested that are required to be reported.

May 11, 2001

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
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 **State Council of Higher Education for Virginia** for the two-year period ended June 30, 2000. 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 on the Commonwealth Accounting and Reporting System, review the adequacy of the Council'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 Council'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 Council's transaction cycle and account balances relating to expenditures, including payments related to student financial aid and other assistance.

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 Council'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 Council'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 the Council properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Council records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to 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 management at an exit conference held on May 24, 2001.

AUDITOR OF PUBLIC ACCOUNTS

JHS:whb
whb:43

AGENCY OVERVIEW AND FINANCIAL HIGHLIGHTS

The State Council of Higher Education for Virginia (the Council) was created to coordinate Virginia's higher education system. The Council has responsibility for promoting a diverse, efficient, and effective system of higher education. It does this by implementing a number of mandated activities including: preparing system-wide plans, reviewing and approving institutional measures, developing guidelines for the assessment of student achievement, and developing data information systems. In addition, the Council approves new degree programs and reviews and approves the enrollment projections of the state-funded institutions. These projections help the Council make recommendations to the Governor and General Assembly on operating and capital outlay budgets, as well as student assistance funding for the public system of higher education in Virginia.

The Council had general fund appropriations of \$47.9 million in fiscal year 1999 and \$52 million in fiscal year 2000, which represents approximately 96 percent of the Council's funding. The remaining four percent consists primarily of federal grants totaling \$1.5 million in both fiscal 1999 and fiscal 2000. The Council also receives donations to fund college faculty awards and an annual awards banquet. Below are the Council's expenses:

<u>Expenditure Type</u>	<u>1999</u>		<u>2000</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Student financial aid and other assistance	\$45,095,607	92.3%	\$48,740,186	93.5%
Personal services	2,680,572	5.5%	2,652,774	5.1%
Contractual services	681,587	1.4%	437,947	0.8%
Other	<u>384,982</u>	<u>0.8%</u>	<u>318,001</u>	<u>0.6%</u>
Total	<u>\$48,842,748</u>	<u>100%</u>	<u>\$52,148,908</u>	<u>100%</u>

Student financial aid consists primarily of undergraduate and graduate scholarships. The majority of these scholarship expenditures are for the Tuition Assistance Grant (TAG) program and the College Scholarship Assistance Program (CSAP). The TAG program contributes funds for assistance to Virginia students attending Virginia private, not-for-profit institutions, while CSAP funds are available to any undergraduate or graduate student through their college or university. In addition to the amounts in the table above, the Council transferred its general fund appropriations for the Eminent Scholars and Virtual Library programs to the state-supported colleges and universities. These amounts totaled \$9.5 million in fiscal year 1999 and \$10.6 million in fiscal year 2000.

REPORTS OF INSTITUTIONAL EFFECTIVENESS

The Council is working closely with the state-supported colleges and universities to identify a set of performance measures, both system-wide and institution-specific measures, for use in Reports of Institutional Effectiveness. The reports should allow students, parents, employers, and policymakers to review detailed information about institutional performance relative to historical trends and current benchmarks.

The reports will primarily focus on the areas of academic quality and institutional efficiency. Academic quality measures will mostly concentrate on the success of students during their higher education experience as well as after graduation. Institutional efficiency measures will reveal efficiency in the use of fiscal, human, and physical resources. The Council and the institutions will use the reports as a tool for ongoing assessment and future planning. The Council is required to make the Reports of Institutional Effectiveness widely available to the public by July 1, 2001.

STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA
Richmond, Virginia

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