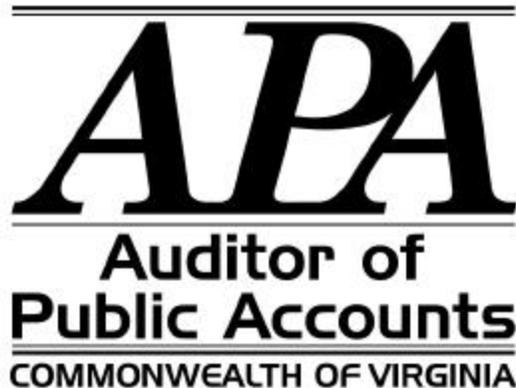


**STATE COUNCIL OF HIGHER EDUCATION  
FOR VIRGINIA  
RICHMOND, VIRGINIA**

**REPORT ON AUDIT  
FOR THE PERIOD JULY 1, 2000  
THROUGH DECEMBER 31, 2001**



## **AUDIT SUMMARY**

Our audit of the State Council of Higher Education for Virginia for the period July 1, 2000 through December 31, 2001 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no internal control matters that we consider material weaknesses; and
- instances of noncompliance relating to the coding and processing of travel payments that are required to be reported.

March 8, 2002

The Honorable Mark R. Warner  
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 period July 1, 2000 through December 31, 2001. 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 significant cycles, classes of transactions, and account balances related to expenditures.

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 instances of noncompliance that are required to be reported under Government Auditing Standards. Instances of noncompliance, entitled "Improve Compliance for Travel Vouchers" are described in the section titled "Agency Background, Compliance Finding and Recommendations, and Financial Highlights and Accomplishments."

This report is intended for the information and use 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 March 25, 2002.

AUDITOR OF PUBLIC ACCOUNTS

JHS:aom  
aom:43

AGENCY BACKGROUND, COMPLIANCE FINDING AND RECOMMENDATIONS, AND  
FINANCIAL HIGHLIGHTS AND ACCOMPLISHMENTS

**Agency Background**

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.

**Compliance Finding and Recommendations**

Improve Compliance for Travel Vouchers

SCHEV incorrectly processed travel vouchers. In September 2001, the Department of Accounts determined that the Council’s compliance rate in voucher processing was unacceptable due to errors they found in travel vouchers. During our audit, we reviewed travel voucher processing since July 2001 and continued to find various processing errors including the following:

- Payment of conference fees using travel vouchers.
- Incorrect expenditure object codes.
- Inadequate documentation of contractors’ services.

While SCHEV has taken corrective action that has improved compliance with travel voucher processing requirements, we recommend that the Finance Manager continue to carefully monitor all travel vouchers to ensure compliance with the Commonwealth Accounting Policies and Procedures Manual. Additionally, we recommend that the Finance Manager process all payments without travel expense, including payments to contractors and conference fees, as vendor payments. Further, the Finance Manager should also thoroughly review all vouchers for correct expenditure coding.

**Financial Highlights and Accomplishments**

The Council received General Fund appropriations of \$65.6 million in fiscal year 2001 and \$67.9 million, as of December 31, 2001, in fiscal year 2002. General Fund appropriations represented approximately 93 percent of the Council’s total funding. Additional funding sources for fiscal years 2001 and 2002 include approximately \$3.3 million and \$4.1 million, respectively, in federal grants and awards and other special revenue amounts dedicated to the Outstanding Faculty Awards Program. Below is a general breakdown of the Council’s expenses.

Expenditure Type	2001		2002 (through December 31, 2001)	
	Amount	Percent	Amount	Percent
Student Financial Aid	\$53,138,449	92.4%	\$34,528,178	93.5%
Personal Services	2,939,326	5.1%	1,626,957	4.4%
Other	<u>1,443,131</u>	<u>2.5%</u>	<u>776,529</u>	<u>2.1%</u>
Total	<u>\$57,520,906</u>	<u>100%</u>	<u>\$36,931,664</u>	<u>100%</u>

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 71 percent of all student financial aid distributed by the Council. Other programs administered by the Council include the College Scholarship Assistance Program (CSAP), the Virginia Graduate and Undergraduate Assistance Program (VGUAP), the Undergraduate Student Financial Assistance (Last Dollar) Program, and the Virginia Transfer Grant Program. Fiscal year 2002 will be the final year for the Last Dollar and Transfer Grant programs.

The Council released its first edition of the Reports of Institutional Effectiveness (ROIE) July 2, 2001. The ROIE are annual reports intended to provide meaningful information on the academic quality and operational efficiency of Virginia's public institutions of higher education. The reports include individual institution profiles with information such as accessibility, affordability, quality, efficiency, population statistics, graduation rates, and a variety of other information. The Council has placed the reports on its website to make them readily available to the public.

STATE COUNCIL OF HIGHER EDUCATION FOR VIRGINIA  
Richmond, Virginia

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