

SUMMARY

A Review of the South Carolina Research Authority (SCRA)

INTRODUCTION

Members of the General Assembly requested the LAC to conduct an audit of the South Carolina Research Authority (SCRA). The audit requesters wanted the review to determine how the SCRA has benefited the state and how these benefits could be increased. They also requested a review of the SCRA's spending and management practices.

BACKGROUND

Established in 1983, the SCRA is a public non-profit corporation which does not receive annual state appropriations and has broad authority to manage its own business. The SCRA's primary activity is conducting research and development programs for the federal government. It also operates three research parks, one near each of the state's research universities.

The SCRA is governed by a board of 23 members. Its 157 employees are exempt from state personnel law except for provisions relating to nepotism, ethics, and retirement.

SCRA has established two private non-profit corporations, Advanced Technology Institute (ATI) and Technology Management Company (TMC). Legislation enacted in 2005 expands the mission of the SCRA to include the establishment of research innovation centers at each of the state's three research universities.

August 2005



BENEFITS TO THE STATE

The SCRA has provided substantial benefits to the state through activities related to its mission. It has been successful in developing and operating a technology-related business.

- SCRA has earned significant revenues for doing research and development projects for the federal government. SCRA established a strategic plan in 1997 when its revenues were approximately \$40 million. For FY 03-04, its revenues increased to \$68 million. It has generally been successful in meeting operational performance goals, increasing its revenues, and keeping indirect costs low (see table below). We found that SCRA generally has adequate documentation to ensure that its performance data is reliable.
- SCRA has succeeded in other strategic goals, such as establishing research institutes in cooperation with the state's research universities and increasing employment in the research parks it operates. It has been less successful in starting for-profit companies, another of its goals.

SCRA's activities have contributed to the state's economic development.

- We confirmed SCRA's data for direct spending in the state and bringing companies to the state, undertaking projects that may impact citizens directly, and contributing to other economic development activities. A recent study from Charleston Southern University estimated the SCRA's return on investment for the state; the study found for every dollar the state has invested, SCRA returns \$6,542 annually.

We recommended changes to ensure that the SCRA's benefits continue.

- The financial contributions SCRA must make under state law for the establishment of research innovation centers (\$12 million in three years) could have a harmful effect on SCRA's operations and its benefits to the state. We recommend the General Assembly adjust the amount required of SCRA.
- SCRA could improve its communications to state officials. Its annual reports do not contain adequate information about agency structure and operations, as well as performance results.

SCRA OPERATING PERFORMANCE MEASURES AND PROGRESS TOWARD 2007 GOALS

MEASURE	GOAL 2007	ACTUAL		
		FY 02-03	FY 03-04	FY 04-05 (AS OF 03/31/05)
1 Annual revenue will exceed \$80 million.	Greater than \$80 M	\$60.5 M	\$68.2 M	\$51.9 M
2 Indirect costs will be no more than 40% of direct costs.	Less than 40%	20.0%	18.2%	19.4%
3 Net revenue will exceed 3%.	3% or greater	3.1%	2.8%	3.0%
4 At least 3% of revenue will be budgeted to underwrite increased capabilities.	3% gross revenues or greater	1.2%	1.4%	1.0%
5 Backlog* of work will exceed previous year's revenue.	Exceed previous year's revenue	\$68.4 M	\$90.7 M	\$109.1 M
6 Percentage of technical work conducted by SCRA associates will be in the range of 20%-25%.	20% or greater	15.1%	15.1%	17.4%

SCRA'S OPERATIONS

AUDITS BY THE LEGISLATIVE AUDIT COUNCIL CONFORM TO GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS AS SET FORTH BY THE COMPTROLLER GENERAL OF THE UNITED STATES.

FOR MORE INFORMATION

Our full report, including comments from the SCRA, and this document are published on the Internet at

www.state.sc.us/sclac

Copies can also be obtained by calling

(803) 253-7612

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Overall, the SCRA has managed its resources appropriately. Most of SCRA's revenues and expenditures are directly related to its contracts to conduct research and development programs for the federal government. Contracts comprised more than 96% of SCRA's revenues for FY 03-04 (see table below).

- SCRA's financial operations are generally sound. However, it has expended some funds for parties and contributions that do not meet criteria for the expenditure of public funds.
- SCRA's executive salaries may be higher than those of most other state agencies. However, a 2004 compensation study found that SCRA's salaries were below the market for comparable organizations. Some SCRA employee benefits exceed those offered to other state employees, while in other cases their benefits are less generous. SCRA offers additional benefits to six executives, including extra insurance and deferred compensation.
- SCRA has appropriate oversight and administration of its indirect costs (overhead expenses). SCRA's indirect cost practices have regularly been audited and approved by the federal government.
- SCRA's efforts to start new companies in support of its strategic goal have not yet resulted in profits. SCRA has invested in or loaned funds to four companies, and has not yet received financial benefits, in one case realizing a loss of nearly \$300,000.
- As required by statute, SCRA manages three research parks, one each near Clemson, the University of South Carolina in Columbia, and the Medical University in Charleston. We found that SCRA has managed its property appropriately and did not identify problems with SCRA's rent or other charges to tenants.
- We did not identify significant problems in our review of SCRA's expenditures for travel. SCRA has generally adopted the federal government's travel guidelines, which have more controls than state policies.
- SCRA generally has appropriate controls to prevent conflicts of interest for staff and board members. We did not find evidence of significant conflicts for SCRA's board members or executive management team. However, there were two cases in which documentation of apparent conflicts could be improved.

SCRA CONSOLIDATED OPERATING STATEMENT		
	FY 02-03	FY 03-04
REVENUES		
Contract Revenues	\$57,321,378	\$65,943,784
Other*	3,177,775	2,213,405
TOTAL Revenue	<u>\$60,499,153</u>	<u>\$68,157,189</u>
EXPENSES		
Directly Identifiable Contract Costs	\$47,886,028	\$55,942,073
Salaries, Wages & Related Costs	5,179,053	5,584,068
General and Administrative	2,234,372	2,209,704
Facility and Park Operating Costs	1,484,526	1,544,147
Depreciation**	1,310,849	1,230,647
Other	953,292	353,598
TOTAL Expenses	<u>\$59,048,120</u>	<u>\$66,864,237</u>
OPERATING INCOME	\$1,451,033	\$1,292,952

See full report for table notes.
Source: SCRA