



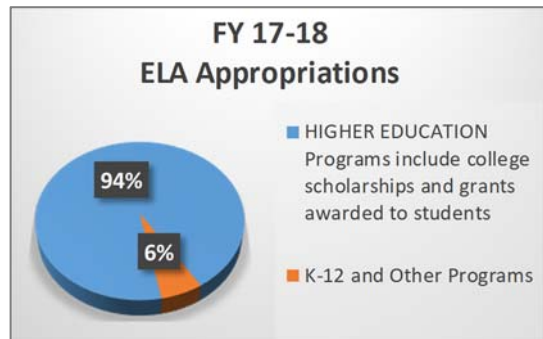
SUMMARY

South Carolina's Use of Education Lottery Account Funds



OVERVIEW

Each year, net proceeds from the lottery are deposited into the Education Lottery Account (ELA), from which the General Assembly makes appropriations to various programs. In FY 17-18, approximately 94% of these funds were appropriated for higher education programs, including college scholarships and grants awarded to students, while the remaining 6% was appropriated for K-12 education and other programs.



CUMULATIVE NON-LOTTERY EDUCATION FUNDING DEFICIT: \$2.1 BILLION

S.C. Code §59-150-350(C)(2) requires that appropriations made from the ELA must “supplement and not supplant existing funds used for education.”

S.C. Code §59-150-350(D) states that:

The proportion of total recurring general fund and special fund revenues of the State expended for the total of public elementary, secondary, and higher education allocations in any fiscal year must not be less than the proportions in the fiscal year immediately before the fiscal year in which education revenues are first received from a state lottery.

Under this law, the percentage of recurring state general and Education Improvement Act funds allocated to education each year must not be less than the percentage allocated in FY 00-01, which we calculated to be approximately 57%. We found, however, that this required percentage of non-lottery state education funding was only met in 4 of the 17 years since the inception of the lottery.

It is important to note that the United States Supreme Court in *Manigault v. Springs*, 199 U.S. 473, (1905), stated that acts adopted by a legislative body are “not necessarily binding upon future legislative bodies” as long as the future legislative bodies do not act in contradiction of a constitutional provision. The requirement that South Carolina allocate a minimum percentage of state non-lottery funds to education is not in the state constitution.

BACKGROUND

During a 2018 management performance review of the South Carolina Education Lottery (SCEL), members of the General Assembly requested that we review the appropriation and use of lottery revenues.

S.C. Code §2-15-60(c) authorizes the Legislative Audit Council “[t]o assist the General Assembly in the performance of its official functions by providing its members and committees with impartial and accurate information and reports concerning the fiscal problems presented to them as members of the General Assembly.”

From the inception of the lottery in FY 01-02 through FY 17-18, \$5 billion in net lottery proceeds have been appropriated by the General Assembly, primarily to higher education and K-12 programs.

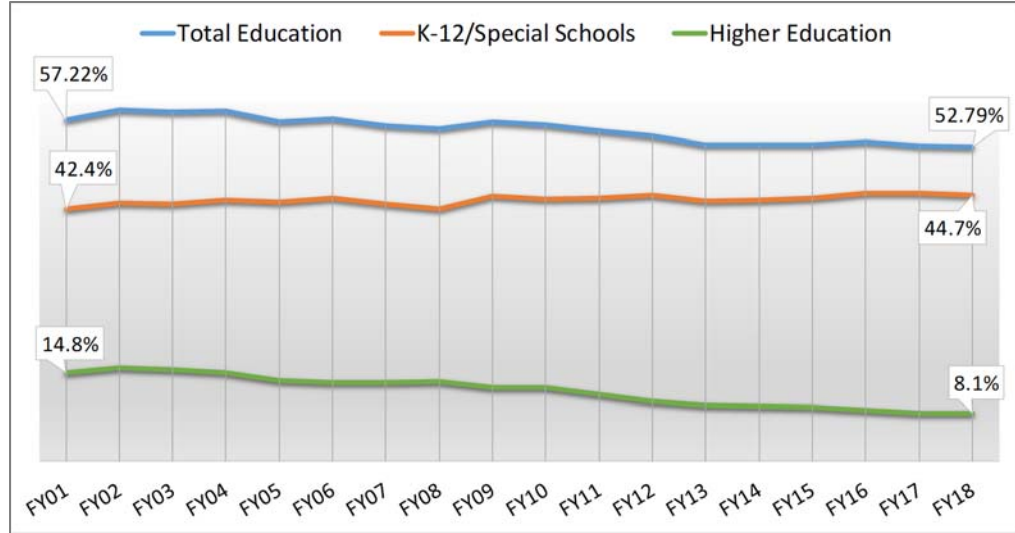
In FY 16-17, total lottery revenues were more than \$1.6 billion, yielding \$400 million in net proceeds.

SCEL, which operates the lottery, has no authority regarding the appropriation of lottery proceeds or the programs funded.

JUNE 2018

GRAPH 1

Graph 1 illustrates the proportions of recurring general fund and Education Improvement Act appropriations made to education since the inception of the lottery. These state appropriations come from non-ELA funding sources.



Although the *total* education percentage line illustrated in Graph 1 is the only one relevant to the funding requirement in S.C. Code §59-150-350(D), we also calculated the funding percentages for K-12/special schools and higher education.

The decrease in the non-ELA education funding percentages since FY 00-01 has been primarily a result of a decrease in the higher education funding percentages.

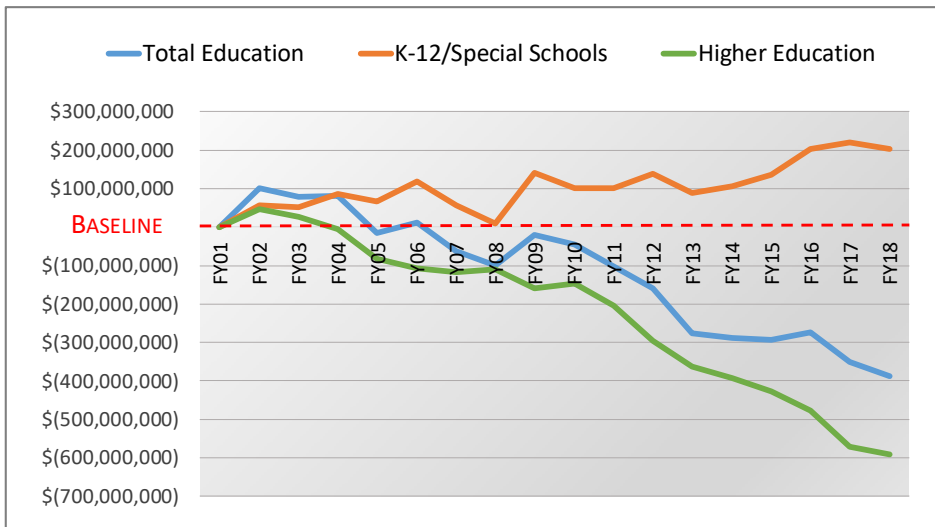
Appropriations for the Department of Education, which constitute the majority of K-12 and special school appropriations, exceeded its FY 00-01 funding percentage every year since the inception of the lottery except for one. However, the higher education funding percentage has been reduced by nearly half since FY 00-01.

NON-ELA STATE EDUCATION FUNDING SURPLUSES AND DEFICITS

Graph 2 illustrates non-ELA state education funding surpluses and deficits relative to the FY 00-01 baseline.

We estimate that there has been a cumulative deficit of approximately \$2.1 billion since FY 00-01.

GRAPH 2



From FY 00-01 through FY 17-18, higher education experienced a cumulative deficit of approximately \$4 billion, while K-12 education and special schools offset that amount with a \$1.9 billion cumulative surplus.

In FY 17-18 alone, the deficit was approximately \$388 million.

EDUCATION LOTTERY ACT INTERNALLY INCONSISTENT

S.C. Code §59-150-350(C) states that appropriations from the ELA may “only” be made for “educational expenses and scholarships as defined in §59-150-350(D).” S.C. Code §59-150-350 (D) outlines programs that “must” receive ELA funds.

Other sections of the lottery statute, however, address funding for programs not listed in §59-150-350(D).

For example, S.C. Code §59-150-356 and §59-150-390 address the disbursement of funds for technology for institutions of higher education and K-12 schools, respectively.

In addition, unrelated to K-12 and higher education, S.C. Code §59-150-230(I) requires a portion of unclaimed lottery prizes to be allocated for “...the prevention and treatment of compulsive gambling disorder and educational programs related to that disorder.”

\$504 MILLION IN LOTTERY APPROPRIATIONS NOT CLEARLY SPECIFIED

We estimate that through FY 17-18, the General Assembly has appropriated \$504 million in ELA funds—10% of all lottery appropriations to date—to programs and purposes not clearly specified by S.C. Code §59-150-350(D). Examples of these include K-12 and higher education technology, the Partnership Among South Carolina Academic Libraries, and private colleges and universities.

IMPLEMENTATION STATUS OF 2014 LAC RECOMMENDATIONS

We reviewed the implementation status of the 5 recommendations in our 2014 report, *A Review of the State’s Use of South Carolina Education Lottery Proceeds* (October 2014).

RECOMMENDATION IMPLEMENTED

October 2014 Recommendation 1

The Commission on Higher Education should implement a program to review the scholarships it disburses to higher education institutions to ensure that scholarships are properly distributed to students by the institutions.

In our follow-up, we found that, beginning in FY 15-16, the annual appropriations acts have required CHE to review the disbursement of funds for lottery-funded scholarships under its purview at least once within a three-year cycle. CHE hired an internal auditor to conduct site visits at public and independent two-year and four-year institutions and test for eligibility, disbursements to student accounts, and record retention.

RECOMMENDATION PARTIALLY IMPLEMENTED

October 2014 Recommendation 2

The State Board for Technical and Comprehensive Education should implement a program to review the disbursement of Lottery Tuition Assistance Program grants by technical colleges to ensure those funds are properly distributed to students of the technical colleges.

In our follow-up, we found that this recommendation had been implemented in 7 of the 16 technical colleges statewide.

FOR MORE
INFORMATION

Our full report, including comments from relevant agencies, is published on our website. Copies can also be obtained by contacting our office.

LAC.SC.GOV

SOUTH CAROLINA GENERAL ASSEMBLY
Legislative Audit Council
Independence, Reliability, Integrity

K. Earle Powell
Director

1331 Elmwood Avenue
Suite 315
Columbia, SC 29201
803.253.7612

RECOMMENDATION
PARTIALLY IMPLEMENTED

October 2014
Recommendation 5

The South Carolina Department of Education should implement a regular program to monitor the spending of lottery funds by school districts and recipient institutions to ensure that the funds are spent according to state law and South Carolina Department of Education guidelines.

In our follow-up, we found that SDE established audit procedures in its FY 16-17 Annual Audit Guide for independent auditors to use when reviewing lottery technology expenditures by school districts. While the reports conducted by the independent auditors include total lottery expenditures by school districts, the reports do not indicate whether the expenditures were analyzed for compliance with applicable state law or appropriations act provisos.

We also found that, in FY 16-17, SDE developed an internal audit program to monitor lottery expenditures by SDE and other entities, including special schools. The FY 16-17 audit was ongoing during our review period.

RECOMMENDATIONS
NOT CURRENTLY APPLICABLE

October 2014
Recommendation 3

The South Carolina Commission on Higher Education and the South Carolina State Board for Technical and Comprehensive Education should communicate prior to the disbursement of funds in order to ensure coordination between the two agencies and oversight of the recipient institutions.

In our 2014 report, we noted that CHE was appropriated *capital funds* in FY 13-14 to distribute to technical colleges throughout the state. However, when CHE transferred these funds to the technical colleges, it did not inform SBTCE. In our follow-up, we found that the appropriations acts passed after FY 13-14 have not allocated capital funds to CHE for disbursement to the technical colleges.

October 2014
Recommendation 4

The South Carolina Department of Education should disburse lottery funds as required by state law [S.C. Code §59-1-525] including implementing a grant program that has an evaluation component and gives first priority to schools rated as below average or unsatisfactory and to grants which are designed to increase academic performance of historically underachieving students.

In our follow-up, we found that, beginning in FY 15-16, the General Assembly ceased funding grant programs authorized by S.C. Code §59-1-525.