



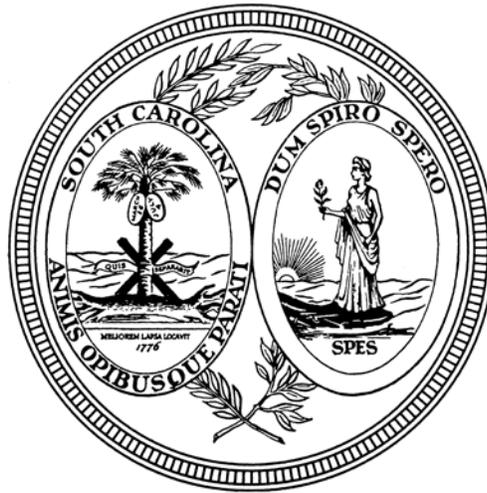
LAC

SOUTH CAROLINA GENERAL ASSEMBLY

Legislative Audit Council

June 2018

SOUTH CAROLINA'S USE OF EDUCATION LOTTERY ACCOUNT FUNDS



LEGISLATIVE AUDIT COUNCIL

1331 Elmwood Ave., Suite 315
Columbia, SC 29201
(803) 253-7612

PUBLIC MEMBERS

Philip F. Laughridge, CPA
Chairman

Jane P. Miller
Vice Chairman

John B. Dangler, JSC (ret)

Thomas F. Hartnett

Charles L. A. Terreni, Esq.



LEGISLATIVE MEMBERS

SENATE JUDICIARY COMMITTEE

Luke A. Rankin, Chairman

Wes Climer, Designee

SENATE FINANCE COMMITTEE

Hugh K. Leatherman, Sr., Chairman

HOUSE JUDICIARY COMMITTEE

F. Gregory Delleney, Jr., Chairman

Gary E. Clary, Designee

HOUSE WAYS AND MEANS COMMITTEE

W. Brian White, Chairman

Garry R. Smith, Designee



DIRECTOR

K. Earle Powell

The Legislative Audit Council performs audits of state agencies and programs, in which we identify ways to reduce the cost and improve the performance of state agencies, and provide information to the General Assembly and the public. We help ensure that operations are efficient and that agencies follow the law to achieve the desired results. We provide information, analysis, and recommendations to help the General Assembly improve state agencies and to help the citizens of South Carolina oversee state government. The LAC is part of the legislative branch of state government and, therefore, it is organizationally independent of the executive branch agencies it audits. Our audits must be requested by the General Assembly, either by statute or on an as-needed basis, Senate Oversight Committee, or House Oversight Committee.

The Legislative Audit Council is composed of five public members, one of whom must be a practicing certified or licensed public accountant and one of whom must be an attorney. In addition, four members of the General Assembly serve ex officio.

Audits by the Legislative Audit Council are conducted in accordance with generally accepted government auditing standards as set forth by the Comptroller General of the United States.

Copies of all LAC audits are available at no charge. We encourage you to visit our website to view and print copies of LAC reports.

LAC.SC.GOV

Audit Manager
Andrew M. Young

Senior Auditor
Courtney Phillips

Auditors
Jacob R. Dominy
Melissa A. Gilroy
Julian C. L. Harris

Legislative Audit Council

SOUTH CAROLINA'S USE OF EDUCATION LOTTERY ACCOUNT FUNDS

Contents

Chapter 1 Introduction

Audit Objectives	1
Scope and Methodology	1
Background	2

Chapter 2 State’s Use of Education Lottery Account Funds

Overview of Education Lottery Account (ELA).....	3
Appropriations for Scholarships and Grants	6
Education Lottery Act Internally Inconsistent	7
ELA Appropriations Not Specified by State Law	8
Unclaimed Lottery Prize Funds Not Appropriated Consistently with State Law	9
Potentially Unconstitutional ELA Appropriations.....	9

Chapter 3 Compliance with Non-Lottery Education Funding Requirement

South Carolina Law Regarding Education Funding	11
General Assembly Not Bound by Education Lottery Act.....	12
Budget and Control Board Analysis of State Non-ELA Education Appropriations	12
LAC Analysis of State Non-ELA Education Appropriations	13
State Non-ELA Education Appropriations Below Level Required by Statute	14
Inflation-Adjusted State Non-ELA Education Appropriations.....	17
Per-Student State Non-ELA Education Appropriations	21
General Fund Appropriations for Scholarships Supplanted by ELA Funds	23
Process for Ensuring ELA Funds Supplement Education Funding	24

Chapter 4 Implementation Status of 2014 LAC Recommendations

Higher Education	26
K-12	28

Appendices

A. Recommendations	31
B. Lottery Appropriations Not Specified by State Law	33
C. Agency Comments	35

Introduction

Audit Objectives

While we were conducting preliminary work on the statutorily-required audit of the South Carolina Education Lottery (SCEL), members of the General Assembly requested that we also review the appropriation and use of revenues received from SCEL.

As a result, we conducted our review in two parts: (1) the appropriation and use of lottery funds, over which SCEL has no authority; and (2) the performance and management of SCEL.

In this report, we summarize the findings from the first part of our review, which had the following objectives:

- Determine whether the funds from the Education Lottery Account (ELA) have been spent in compliance with state law.
- Determine the state's compliance with the education funding requirement in S.C. Code §59-150-350(D).
- Determine the status of recommendations made in previous LAC lottery audits.

We will publish a report on the findings from the second part of our review later in 2018.

Scope and Methodology

This review focused on the disbursement of ELA funds, which is handled by the General Assembly and other agencies, not SCEL itself. The period of our review was generally from FY 02-03, when the General Assembly first appropriated lottery funds, through FY 17-18 unless otherwise noted. To conduct this audit, we consulted a variety of sources of evidence, including the following:

- State laws.
- State appropriations acts.
- Information provided by the S.C. Commission on Higher Education, the State Board for Technical and Comprehensive Education, and the S.C. Department of Education.
- Budget analyses performed by the S.C. Revenue and Fiscal Affairs Office.

The criteria used to measure performance consisted primarily of state laws. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The South Carolina Education Lottery was established in 2001 and began operations in 2002, making South Carolina the 38th state in the country to establish a government-operated lottery. Sales of lottery products in South Carolina were more than \$1.6 billion in FY 16-17. From the inception of the lottery through FY 17-18, more than \$5 billion in ELA funds have been appropriated to educational (and other) programs.

State's Use of Education Lottery Account Funds

The General Assembly, not the South Carolina Education Lottery (SCEL), is responsible for the allocation of lottery funds. We found that:

- The General Assembly has not consistently followed state law regarding the disbursement of Education Lottery Account funds.
- State law is inconsistent regarding acceptable uses of Education Lottery Account funds.
- The General Assembly has allocated more than \$500 million in Education Lottery Account funds to programs that are not specified by statute.
- \$3 million in Education Lottery Account funds may not have been appropriated for education as required by the South Carolina Constitution.

Overview of Education Lottery Account (ELA)

Revenues collected by SCEL are not deposited into the state's General Fund but rather a separate fund called the ELA. Unclaimed lottery prizes are also deposited into the ELA. The General Assembly appropriates funds from the ELA in its annual appropriations bill.

ELA Appropriations

We reviewed the appropriation of funds from the ELA since FY 02-03, the first year these funds were appropriated. From FY 02-03 through FY 17-18, the General Assembly has appropriated \$5 billion from the ELA to various programs. Approximately 80% of these appropriations have been for higher education purposes, particularly scholarship and grant programs. The remaining 20% has been appropriated for K-12 education and other programs.

In FY 17-18, the General Assembly appropriated \$421,270,290 from the ELA, including more than \$18 million in unclaimed prizes. Of these appropriations, 94.25% (\$397,058,966) were made to higher education programs, 5.31% were made to the S.C. Department of Education (SDE), and 0.44% were made to other programs.

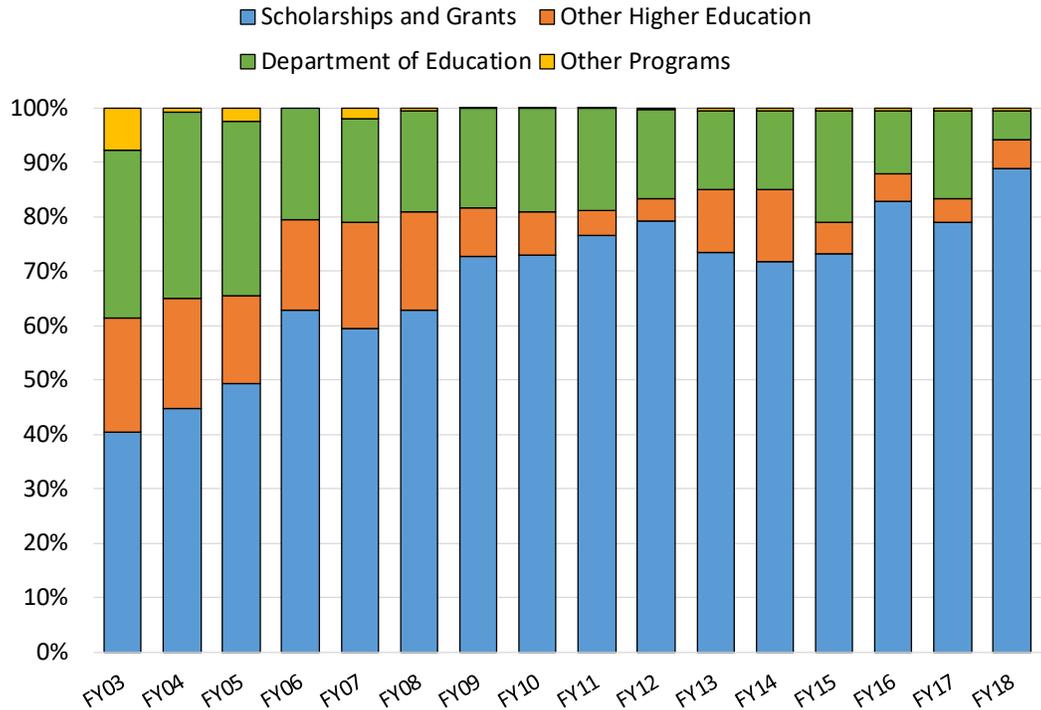
Table 2.1: Allocations of ELA Funds, FY 17-18

HIGHER EDUCATION	
Scholarships, grants, and tuition assistance	\$374,573,758
Other higher education programs:	
Commission on Higher Education for technology	6,500,000
Higher Education Excellence Enhancement Program	6,072,473
State Board for Technical and Comprehensive Education	6,250,000
SC State University for unrestricted purposes	2,500,000
Partnership Among South Carolina Academic Libraries	513,129
Southern Regional Education Board Program and Assessments	349,606
Carolina Career Clusters Grant (1:1 Match)	300,000
Higher Education Total	\$397,058,966
S.C. DEPARTMENT OF EDUCATION	
School Bus Lease/Purchase	\$21,961,324
Reading Partners	400,000
S.C. Department of Education Total	\$22,361,324
OTHER AGENCIES	
State Library for aid to county libraries	\$800,000
School for the Deaf and the Blind for bus purchase/lease	800,000
School for the Deaf and the Blind for technology	200,000
Department of Alcohol and Other Drug Abuse Services for gambling addiction services	50,000
Other Agencies Total	\$1,850,000
TOTAL ELA Appropriations	\$421,270,290

Source: S.C. Department of Administration

Graph 2.2 shows the use of ELA funds since FY 02-03. As shown, the percentage of ELA funds appropriated to SDE has generally decreased over time, and was approximately 5% in FY 17-18. Funding for higher education has always been the majority of ELA appropriations, and scholarships and grants have been the majority of annual lottery appropriations every year since FY 05-06.

Graph 2.2: Percentage of ELA Appropriations by Category, FY 02-03 – FY 17-18



Note: Scholarships and Grants include: LIFE, HOPE, Palmetto Fellows, Need-Based Grants, Tuition Assistance, Teacher Grants, Tuition Grants, Workforce Scholarships & Grants, and the National Guard Tuition Repayment Program.

Sources: S.C. Department of Administration, S.C. appropriations acts

The FY 18-19 General Appropriations Bill as initially passed by the S.C. House of Representatives proposes to appropriate \$461,000,000 from the ELA. By proviso, the bill would establish a Lottery Reserve Trust Fund, which would be separate from the General Fund and the ELA. All net lottery proceeds, investment earnings, and unclaimed prize funds above the amounts certified by the Board of Economic Advisors, as well as amounts appropriated by the General Assembly, would be deposited into this fund. As in previous years, the bill would allocate most of the appropriated ELA funds (\$419,677,123) for higher education. Of the remaining appropriations, \$50,000 would be allocated to the Department of Alcohol and Other Drug Abuse Services (DAODAS), with the rest (\$41,272,877) allocated to the Lottery Reserve Trust Fund. The bill does not propose to allocate any lottery funding for K-12 education.

Appropriations for Scholarships and Grants

Since FY 05-06, scholarship and grant programs have received the majority of ELA funds. In FY 17-18, scholarship and grant programs were initially appropriated \$374,573,758 in ELA funds, as well as an additional \$50,898,592 from the state General Fund. Approximately 93% of scholarship appropriations from the ELA in FY 17-18 were allocated to students without regard for financial need. Table 2.3 shows the ELA funds appropriated to scholarship and grant programs in FY 16-17 and FY 17-18, as well as the number of recipients in 2016-17.

The LIFE Scholarship program, which was appropriated 52.7% of ELA funds in FY 17-18, has received 35.5% of all ELA appropriations since FY 02-03.

Table 2.3: Disbursement of Scholarship Programs Receiving ELA Funds in FY 17-18

SCHOLARSHIP	FY 16-17 ELA APPROPRIATION	ACADEMIC YEAR 16-17 SCHOLARSHIP RECIPIENTS	FY 17-18 ELA APPROPRIATION
LIFE Scholarship	\$199,754,741	40,230	\$221,843,614
S.C. HOPE Scholarship	\$9,552,955	3,955	\$14,458,578
Palmetto Fellows Scholarship	\$49,274,030	7,660	\$51,927,301
Lottery Tuition Assistance	\$47,755,000	42,167	\$47,342,211
State Need-Based Grants	\$17,537,078	30,399	\$17,537,078
Tuition Grants	\$11,675,008	13,214	\$8,830,008
Workforce Scholarships and Grants	\$5,000,000	4,271	\$8,000,000
National Guard Tuition Repayment Program*	\$4,545,000	717	\$4,634,968

* Since 2007, ELA funds appropriated for the National Guard Tuition Repayment Program have been used to fund the S.C. National Guard College Assistance Program.

Sources: Commission on Higher Education, Tuition Grants Commission,
State Board for Technical and Comprehensive Education

Education Lottery Act Internally Inconsistent

Table 2.4: Educational Purposes and Programs That Must Receive ELA Funds Under State Law

The South Carolina Constitution specifies that ELA funds “may be used only for educational purposes as the General Assembly provides by law.” S.C. Code §59-150-350(C)(2) states that appropriations from the ELA can “only” be made for “educational purposes and programs,” which are defined as “educational expenses and scholarships as defined in §59-150-350(D).” Table 2.4 lists the programs that S.C. Code §59-150-350(D) states “must” be appropriated ELA funds.

•Palmetto Fellows Scholarships to all eligible applicants
•S.C. State Library for public library state aid, to be distributed to county public libraries for educational technology delivery, upgrade, and maintenance
•CHE for Tuition Assistance at technical colleges and two-year institutions
•S.C. HOPE Scholarship Program
•CHE for higher education assistance, including need-based grants and grants to teachers for advanced education
•National Guard Tuition Repayment Program
•New higher education programs enacted by the General Assembly
•CHE for a construction and renovation fund for historically black colleges and universities
•Higher Education Tuition Grants Commission for tuition grants
•Public K-12 education as pursuant to the Education Accountability Act of 1998 or education improvement legislation enacted after the S.C. Education Lottery Act
•LIFE Scholarships for eligible resident students attending four-year public institutions
•SDE to fund homework centers
•S.C. Educational Television Commission for digitalization
•SDE for the purchase or repair of school buses
•SDE for school-based grants for pilot programs

Source: S.C. State Law

However, other provisions of the law may not be consistent with this, directing or discussing uses of ELA funds that are not specifically mentioned in S.C. Code §59-150-350(D). For example, S.C. Code §59-150-356 and §59-150-390 discuss the disbursement of funds for technology for institutions of higher education and K-12 schools, respectively.

S.C. Code §59-150-230(I) requires the General Assembly to allocate portions of unclaimed prize money to DAODAS, or similar nonprofit agency, for prevention, treatment, and education programs related to compulsive gambling disorder and to SDE for the purchase of new school buses. However, although S.C. Code §59-150-350(D) allows for ELA funds to be spent on school buses, it does not specifically authorize funds for DAODAS or similar nonprofit agencies.

ELA Appropriations Not Specified by State Law

The General Assembly has appropriated funds from the ELA to programs and for purposes not clearly specified by statute. The law authorizes the General Assembly to appropriate ELA funds only to educational programs listed in S.C. Code §59-150-350(D). The General Assembly has nonetheless appropriated ELA funds to programs not specifically mentioned in this statute.

In total, 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 statute. Table 2.5 shows these appropriations.

Table 2.5: Appropriated ELA Funds for Purposes and Programs Not Specified by State Law, FY 02-03 – FY 17-18

COMMISSION ON HIGHER EDUCATION	
Technology — Public Higher Education Institutions	\$163,579,759
Academic Facility Building, Repair, Maintenance, and Training	42,590,136
Partnership Among South Carolina Academic Libraries	6,216,157
Designated Private Higher Education Institutions	321,967
Other Designated CHE	6,780,907
S.C. DEPARTMENT OF EDUCATION	
K-12 Technology Initiative	87,866,928
6-8 Reading, Math, Science, and Social Studies Program	22,000,000
Other Designated Programs	64,116,870
STATE BOARD FOR TECHNICAL AND COMPREHENSIVE EDUCATION	
Allied Health Initiative	23,150,000
Workforce Scholarships and Grants	18,000,000
Critical Training Equipment	5,912,307
Deferred Maintenance	5,234,685
Other Designated Programs	4,025,000
SOUTH CAROLINA STATE UNIVERSITY	
Unrestricted	44,000,000
SCHOOL FOR THE DEAF AND THE BLIND	
Technology	2,600,000
Bus Purchase/Lease	1,050,000
BUDGET AND CONTROL BOARD/DAODAS	
Gambling Addiction Services	2,950,000
OTHER	
Designated Programs	3,675,000
TOTAL	\$504,069,716

Note: See Appendix B for full list of programs.

Source: S.C. Department of Administration

In several instances, select ELA appropriations were vetoed by the Governor on the grounds that state law did not allow for them, but the General Assembly voted to override those vetoes.

We also noted that S.C. Code §59-150-350(D) does not specifically mention ELA appropriations for LIFE scholarships for students at two-year, technical, and independent higher education institutions. The statute states that ELA funds should be used to provide LIFE scholarships “for eligible resident students attending four-year public institutions.” However, it is unlikely that the law has been violated, as it also includes a general authorization for ELA funds to be appropriated to the Commission on Higher Education for “higher education assistance programs.”

Unclaimed Lottery Prize Funds Not Appropriated Consistently with State Law

State law requires funds from unclaimed lottery prizes to be allocated for certain purposes, but those requirements have not been followed consistently.

As discussed above, S.C. Code §59-150-230(I) requires portions of unclaimed prize money to be allocated each year to programs related to compulsive gambling disorder and for the purchase of new school buses. Out of the approximately \$250 million in unclaimed prize funds appropriated from FY 02-03 through FY 17-18, \$1.85 million was appropriated to DAODAS and \$73.6 million was appropriated to SDE for school buses.

From FY 03-04 through FY 06-07, as well as from FY 08-09 through FY 10-11, no unclaimed prize money was allocated to DAODAS or any other group for compulsive gambling programs. Additionally, there was no unclaimed prize money allocated to SDE for school buses from FY 06-07 to FY 10-11. In four years since SCEL’s inception, neither of these requirements were met.

Potentially Unconstitutional ELA Appropriations

Nearly \$3 million in ELA funds have been appropriated for gambling addiction services from FY 02-03 through FY 17-18. However, these appropriations may have been unconstitutional.

Article XVII, section 7 of the South Carolina Constitution specifies that ELA funds “may be used only for education purposes as the General Assembly provides by law.” Although the constitution does not define “education purposes,” a 2004 Attorney General opinion stated that the phrase was intended “to be used in its usual and ordinary meaning – support for the education system in South Carolina.”

A 2006 Attorney General opinion further stated that “more than a tangential relationship must exist between the purpose for which the funds are to be used and education.”

In FY 17-18, DAODAS was appropriated \$50,000 of ELA funds for gambling addiction services. A DAODAS official reported that the ELA funds it receives have been used for gambling addiction treatment programs, a problem gambling hotline, and public advertising campaigns for problem gambling resources. It is not clear that these funds are more than tangentially related to the S.C. education system.

There are two options to maintain funding for gambling addiction services that would not conflict with the state constitution. The General Assembly could amend state law to require SCEL to provide funding to DAODAS out of its operating expenses, which is defined by state law to include “funds for compulsive gambling education and treatment.” The General Assembly could also appropriate funds to DAODAS for gambling addiction services from the General Fund rather than the ELA.

Recommendations

1. The General Assembly should:
 - (a) Ensure it acts consistently with the South Carolina Constitution, S.C. Code §59-150-350(D), and §59-150-230(I) when appropriating Education Lottery Account funds to specific programs; or
 - (b) Amend state law to be consistent with program appropriations.
2. The General Assembly should discontinue appropriating funds from the Education Lottery Account for gambling addiction programs and do one of the following:
 - (a) Amend state law to require the South Carolina Education Lottery to allocate a specific annual amount of its operating expenses to the Department of Alcohol and Other Drug Abuse Services for gambling addiction programs; or
 - (b) Appropriate a specific amount annually from the General Fund to the Department of Alcohol and Other Drug Abuse Services for gambling addiction programs.

Compliance with Non-Lottery Education Funding Requirement

We analyzed state appropriations from sources other than the Education Lottery Account (ELA) to determine compliance with a statutory education funding requirement. We found that state non-ELA appropriations for education have frequently fallen short of the level required by statute. We estimated that, relative to the level required by state law, education appropriations have experienced a cumulative deficit of approximately \$2.1 billion since FY 00-01. However, the General Assembly is not legally bound by the requirements in the Education Lottery Act because it has the authority to modify or disregard its prior actions.

South Carolina Law Regarding Education Funding

S.C. Code §59-150-350(C)(2) states that appropriations made from the ELA “must be used to supplement and not supplant existing funds used for education.” Additionally, S.C. Code §59-150-350(D) states:

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, and must not be reduced or supplanted later by revenues received from a state lottery.

This statute prohibits the replacement of state non-ELA education funding by ELA funds and requires that a baseline percentage of state non-ELA appropriations be allocated for education, but it does not specify an exact percentage. The ELA first received revenues from SCEL in FY 01-02, meaning that the baseline percentage was set at the FY 00-01 level.

Funding Requirement Unclear

The education funding requirement in S.C. Code §59-150-350(D) lacks clarity regarding those agencies and programs that are considered “elementary, secondary, and higher education.” Clarifying this statute would help to ensure consistent analysis of education funding.

General Assembly Not Bound by Education Lottery Act

Although the South Carolina Education Lottery Act includes certain requirements for, and restrictions on, the appropriation of ELA funds and requires that general funds for education not be supplanted by ELA funds, these provisions are not binding on the General Assembly.

A 2006 South Carolina Attorney General opinion addressed the issue of ELA funds supplanting general funds for education in potential violation of state law. The opinion, citing the U.S. Supreme Court's decision in *Manigault v. Springs*, 199 U.S. 473, (1905), stated that acts, ordinances, and rules adopted by a legislative body "[are] not necessarily binding upon future legislative bodies," and that "[a]s long as a legislative body does not act in contradiction of a constitutional provision, it may repeal, amend, or even disregard the general law it enacted." Because of this, the opinion concluded that if "the Legislature acted in opposition to the requirements set forth in the Education Lottery Act, such disregard for its own legislation may not render its actions invalid."

Budget and Control Board Analysis of State Non-ELA Education Appropriations

The S.C. Budget and Control Board analyzed FY 00-01 appropriations and calculated that 56.71% of recurring general fund appropriations must be allocated to education programs in order to comply with S.C. Code §59-150-350(D). In a later analysis, the S.C. Revenue and Fiscal Affairs Office (RFA) estimated that education appropriations in the Senate Finance Committee's FY 17-18 budget recommendations would fall short of the education funding requirement in S.C. Code §59-150-350(D) by \$398,914,867.

There is currently no statutory requirement that an annual determination of compliance with S.C. Code §59-150-350(D) be conducted. Analyzing education funding on an annual basis and establishing a formal consideration process could assist the General Assembly with meeting statutory funding requirements.

LAC Analysis of State Non-ELA Education Appropriations

The LAC performed its own analysis of annual education appropriations since FY 00-01 to determine compliance with S.C. Code §59-150-350(D). Our methodology largely replicated that of previous analyses performed by the RFA. Included in education appropriations were recurring general fund appropriations for:

- Department of Education
(as well as Education Improvement Act appropriations)
- Wil Lou Gray Opportunity School
- School for the Deaf and the Blind
- John de la Howe School
- Palmetto Unified School District
- Juvenile Justice Education System
- Commission on Higher Education
- Higher Education Tuition Grants Commission
- Public 4-Year and 2-Year Colleges & Universities
- Medical University of South Carolina
- Area Health Education Consortium
- State Board for Technical and Comprehensive Education
- Debt Service for Education Agencies
- Employee Benefits for Education Agencies

The total state non-ELA appropriation in each year was the sum of all recurring general fund appropriations and Education Improvement Act appropriations, taking into account line item vetoes and mid-year reductions. Several elements of this analysis required estimation, such as the amount of capital improvement bond debt service used for education agencies, but these quantities amounted to a small percentage of total appropriations. As a result, our analysis should be considered an estimate. In the future, estimation may not be necessary if proper records are maintained.

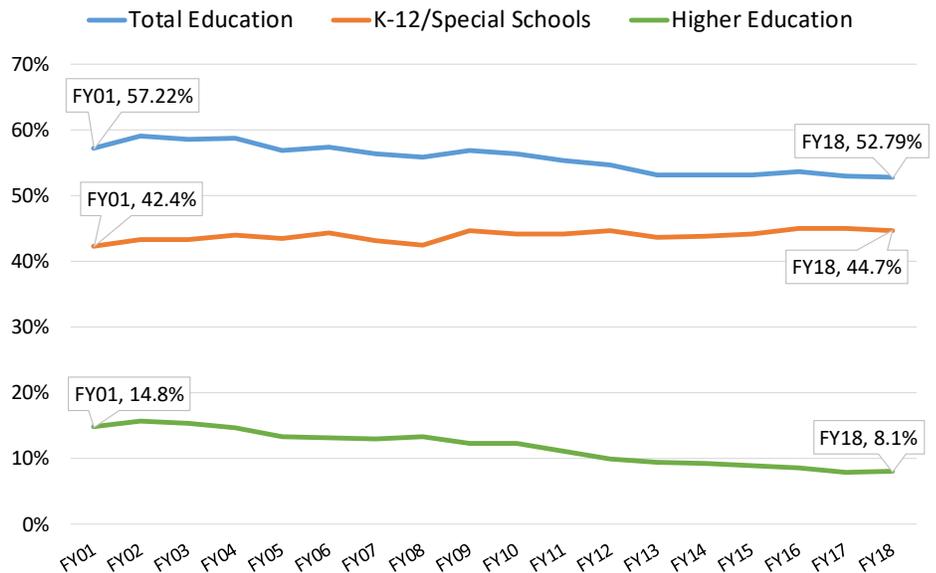
We did not analyze the *adequacy* of state education funding, and our analysis should not be interpreted as such. Rather, it is simply to determine *compliance* with the statutory education funding requirement. Failure to meet this requirement prevents the fulfillment of the initial purpose of the South Carolina Education Lottery, which was to provide funds to “supplement, not supplant, existing resources for educational purposes and programs.”

State Non-ELA Education Appropriations Below Level Required by Statute

We found that the General Assembly has only met the statutory education funding requirement in four years since FY 00-01. We estimate that, relative to the level required by statute, state non-ELA education appropriations have experienced a cumulative deficit of approximately \$2.1 billion since FY 00-01.

We calculated that 57.22% of recurring general fund and Education Improvement Act appropriations must be allocated for education in order to meet the education funding requirement in S.C. Code §59-150-350(D). By FY 17-18, this percentage was reduced to 52.79%. Our analysis showed that state non-ELA education appropriations fell below the level required by statute in FY 04-05 and from FY 06-07 through FY 17-18.

Graph 3.1: Percentage of Recurring General Fund and Education Improvement Act Appropriations Allocated to Education, FY 00-01 – FY 17-18



Notes: "K-12/SPECIAL SCHOOLS" consists of the S.C. Department of Education, the Wil Lou Gray Opportunity School, the John de la Howe School, the School for the Deaf and the Blind, the Palmetto Unified School District, the Juvenile Justice education program, debt service for state school facilities bonds, and estimated capital improvement bond debt service for the preceding agencies.

"HIGHER EDUCATION" consists of the Commission on Higher Education, the Higher Education Tuition Grants Commission, public 2-year and 4-year colleges and universities, the Medical University of South Carolina, the Area Health Education Consortium, the State Board for Technical and Comprehensive Education, debt service for research university infrastructure bonds, and estimated capital improvement bonds for the preceding agencies and institutions.

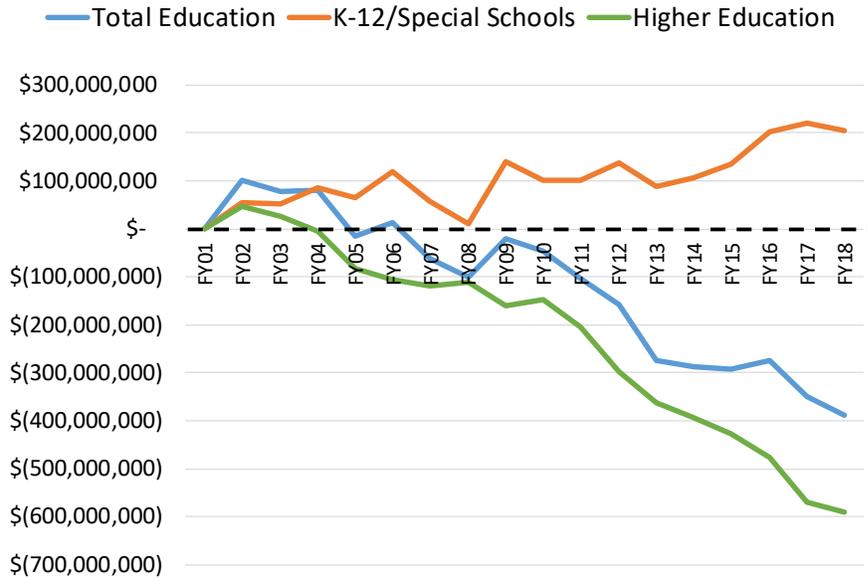
Sources: S.C. State Law, Executive Budget Office

The percentages discussed in this section and shown in Graph 3.1 indicate the annual proportions of total recurring general fund and Education Improvement Act appropriations made to education. Although the total education percentage is the only one relevant to the funding requirement in S.C. Code §59-150-350(D), we have calculated funding percentages of K-12/special schools and higher education separately as well to illustrate how funding priorities have shifted over time.

The decrease in the 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 constitutes the majority of K-12 and special school appropriations, exceeded its FY 00-01 funding percentage every year since the establishment of the lottery except for one. However, as shown in Graph 3.1, the higher education funding percentage has been reduced by nearly half since FY 00-01.

Graph 3.2 shows the amounts by which state non-ELA education appropriations have exceeded or fallen short of the FY 00-01 baseline. Higher education has contributed approximately \$4 billion to the cumulative education deficit, while K-12 education and special schools offset that amount with an approximately \$1.9 billion cumulative surplus. In total, we estimate that, relative to the level required by state law, there has been a cumulative state non-ELA education funding deficit of approximately \$2.1 billion since FY 00-01.

Graph 3.2: Annual State Non-ELA Education Funding Surpluses and Deficits Relative to the FY 00-01 Baseline



Notes: To produce this chart, percentages of total recurring general fund and Education Improvement Act appropriations were compared to the FY 00-01 percentages of the same. The annual differences were then multiplied by the total amount of recurring general fund and Education Improvement Act appropriations in each year.

“K-12/SPECIAL SCHOOLS” consists of the S.C. Department of Education, the Wil Lou Gray Opportunity School, the John de la Howe School, the School for the Deaf and the Blind, the Palmetto Unified School District, the Juvenile Justice education program, debt service for state school facilities bonds, and estimated capital improvement bond debt service for the preceding agencies.

“HIGHER EDUCATION” consists of the Commission on Higher Education, the Higher Education Tuition Grants Commission, public 2-year and 4-year colleges and universities, the Medical University of South Carolina, the Area Health Education Consortium, the State Board for Technical and Comprehensive Education, debt service for research university infrastructure bonds, and estimated capital improvement bonds for the preceding agencies and institutions.

Sources: S.C. State Law, Executive Budget Office

In every year that total state non-ELA appropriations for education have fallen short of the levels required by S.C. Code §59-150-350(D), total ELA appropriations have exceeded the relative deficits. Because of these deficits, however, the impact of the ELA appropriations on education funding has been diminished. It is important to note that the education funding requirement in S.C. Code §59-150-350(D) pertains only to non-ELA state appropriations for education and that the South Carolina Education Lottery Act was created to supplement, not supplant, education funding.

Since the inception of the lottery, around 42% of ELA appropriations have been offset by the net cumulative deficit in state non-ELA education funding. Over time, ELA appropriations have increased at a slower rate than the annual relative education deficits. The FY 17-18 Appropriations Act contains ELA appropriations that exceed the state non-ELA education funding deficit by only \$33.6 million (\$421.3 million in ELA fund appropriations minus the \$387.7 million in state non-ELA education appropriations). For that year, approximately 92% of ELA appropriations were offset by the deficit in state non-ELA education appropriations. Note that ELA funds have been appropriated for purposes and programs not included in the above analysis.

FY 18-19 General Appropriations Bill Passed by the South Carolina House of Representatives

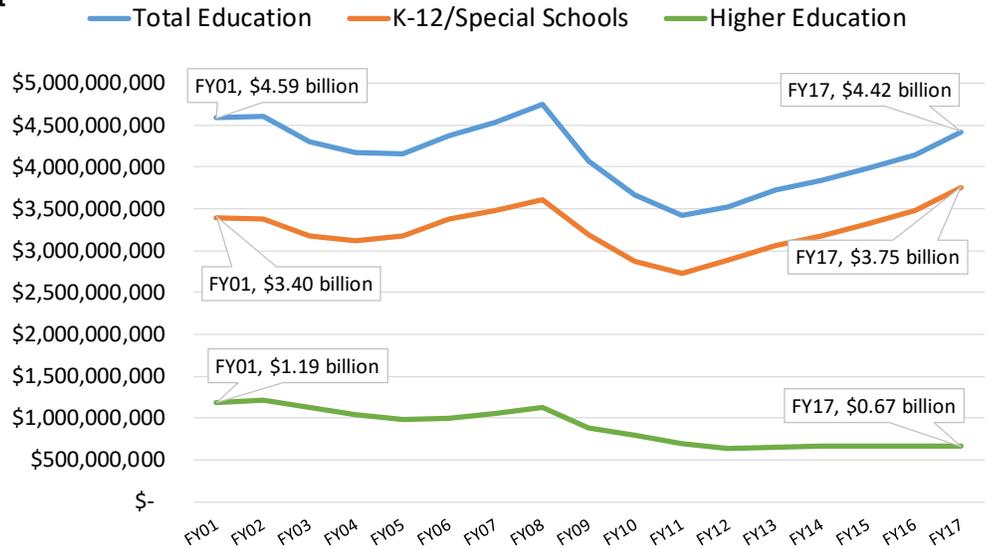
We also analyzed the FY 18-19 General Appropriations Bill as initially passed by the S.C. House of Representatives to determine if it would fund education in compliance with S.C. Code §59-150-350(D). We estimated that, if enacted unchanged, the bill would fund education at 52.92% of recurring general and Education Improvement Act appropriations, resulting in a state non-ELA education funding deficit relative to the FY 00-01 baseline of almost \$383 million.

Inflation-Adjusted State Non-ELA Education Appropriations

In addition to analyzing state education appropriations as a percentage of spending, we also used alternative methods of measuring changes in education appropriations over time. These analyses showed that, relative to FY 00-01 levels, higher education appropriations have decreased while appropriations for K-12 education and special schools have increased.

Not only did state non-ELA higher education appropriations decline as a percentage of recurring general fund and Education Improvement Act appropriations since FY 00-01, but they declined in dollars as well, both in nominal terms and adjusted for inflation.

Graph 3.3: Recurring General Fund and Education Improvement Act Appropriations Allocated for Education, Adjusted for Inflation (Constant FY 16-17 Dollars)



Notes: Adjusted for inflation using the Consumer Price Index for All Urban Consumers.

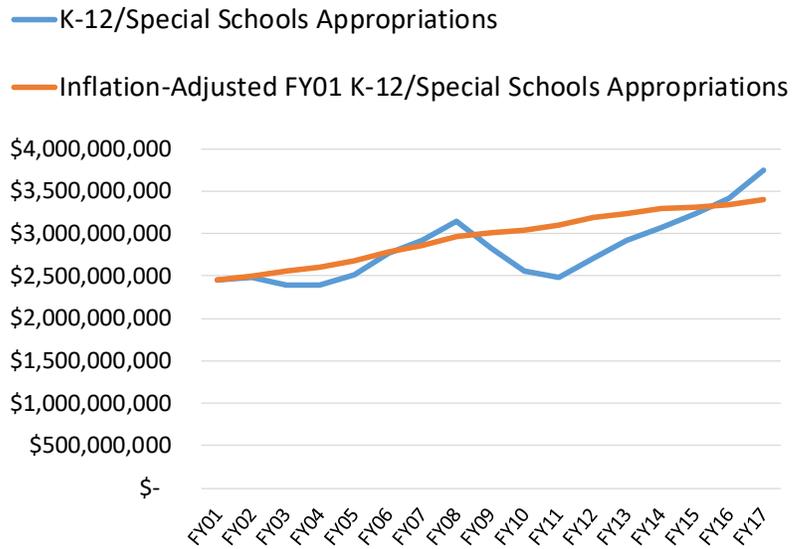
“K-12/SPECIAL SCHOOLS” consists of the S.C. Department of Education, the Wil Lou Gray Opportunity School, the John de la Howe School, the School for the Deaf and the Blind, the Palmetto Unified School District, the Juvenile Justice education program, debt service for state school facilities bonds, and estimated capital improvement bond debt service for the preceding agencies.

“HIGHER EDUCATION” consists of the Commission on Higher Education, the Higher Education Tuition Grants Commission, public 2-year and 4-year colleges and universities, the Medical University of South Carolina, the Area Health Education Consortium, the State Board for Technical and Comprehensive Education, debt service for research university infrastructure bonds, and estimated capital improvement bonds for the preceding agencies and institutions.

Sources: S.C. State Law, Executive Budget Office, U.S. Bureau of Labor Statistics

We also created an alternative scenario wherein the baseline state non-ELA education appropriations in FY 00-01 were increased every year by the rate of inflation, and compared this to actual state non-ELA education appropriations. As shown in Graph 3.4, recurring general fund and Education Improvement Act appropriations for K-12 education and special schools fell after FY 01-02 and FY 07-08, as well as the state budget as a whole, but recovered to be above the inflation-adjusted level by FY 15-16.

Graph 3.4: Recurring General Fund and Education Improvement Act Appropriations Allocated for K-12 Education and Special Schools

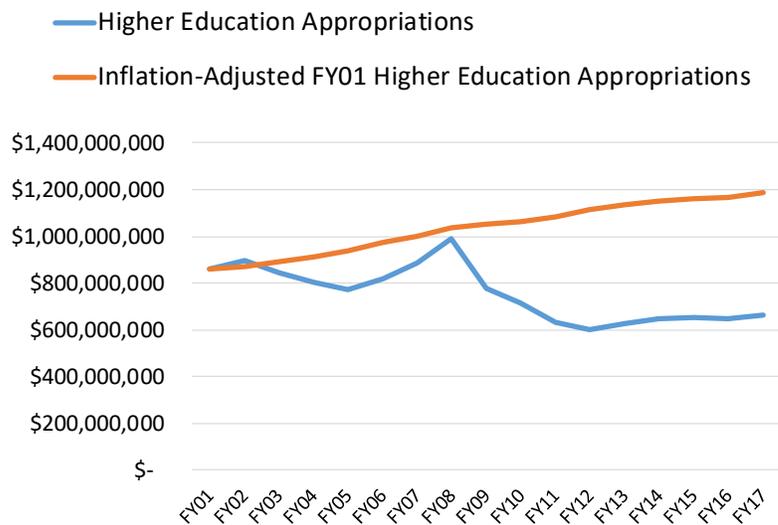


Note: "K-12/SPECIAL SCHOOLS" consists of the S.C. Department of Education, the Wil Lou Gray Opportunity School, the John de la Howe School, the School for the Deaf and the Blind, the Palmetto Unified School District, the Juvenile Justice education program, debt service for state school facilities bonds, and estimated capital improvement bond debt service for the preceding agencies. Adjusted for inflation using the Consumer Price Index for All Urban Consumers.

Sources: S.C. State Law, Executive Budget Office, U.S. Bureau of Labor Statistics

When the same analysis was performed for higher education, appropriations did not recover in the same way. In FY 16-17, recurring general fund appropriations for higher education were more than \$500 million below the inflation-adjusted measure.

Graph 3.5: Recurring General Fund Appropriations Allocated for Higher Education



Note: "HIGHER EDUCATION" consists of the Commission on Higher Education, the Higher Education Tuition Grants Commission, public 2-year and 4-year colleges and universities, the Medical University of South Carolina, the Area Health Education Consortium, the State Board for Technical and Comprehensive Education, debt service for research university infrastructure bonds, and estimated capital improvement bonds for the preceding agencies and institutions. Adjusted for inflation using the Consumer Price Index for All Urban Consumers.

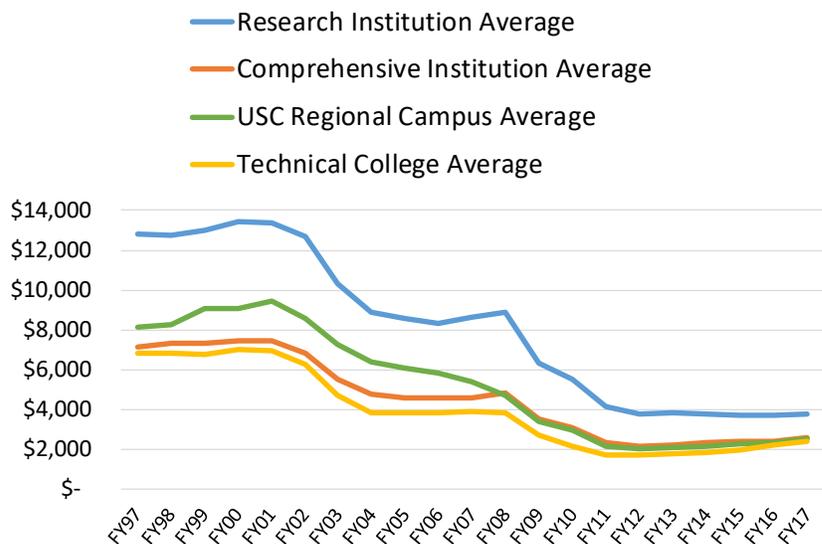
Sources: S.C. State Law, Executive Budget Office, U.S. Bureau of Labor Statistics

Per-Student State Non-ELA Education Appropriations

We also analyzed state non-ELA appropriations for higher education and K-12 education on a per-student basis.

Graph 3.6 shows inflation-adjusted per-student recurring general fund appropriations for public higher education institutions. These institutions, particularly research institutions—Clemson University and the University of South Carolina in Columbia—experienced significant reductions in appropriations per-student after FY 00-01 and FY 01-02, as well as following FY 07-08. When adjusted for inflation, state per-student funding in FY 16-17 was less than half of FY 00-01 funding levels.

Graph 3.6: Per-Student Recurring General Fund Appropriations for Higher Education, Adjusted for Inflation (Constant FY 16-17 Dollars)

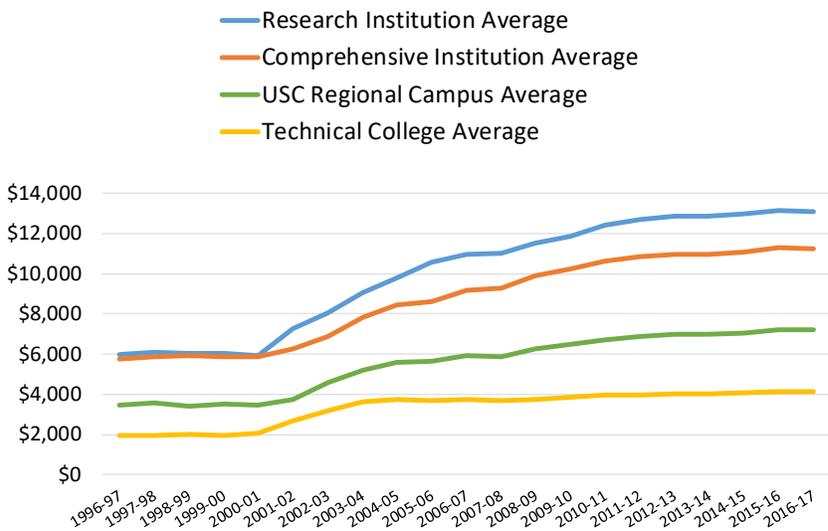


Note: "RESEARCH INSTITUTION AVERAGE" does not include the Medical University of South Carolina. Adjusted for inflation using the Higher Education Price Index.

Sources: Commission on Higher Education, Commonfund Institute

One potential consequence of reduced state funding for higher education is increased tuition charged by colleges and universities. Graph 3.7 shows inflation-adjusted tuition and fees per student at public South Carolina higher education institutions. Tuition costs began rising sharply after FY 00-01, around the same time state funding began to fall.

Graph 3.7: Per-Student In-State Tuition and Fees, Adjusted for Inflation (Constant FY 16-17 Dollars)

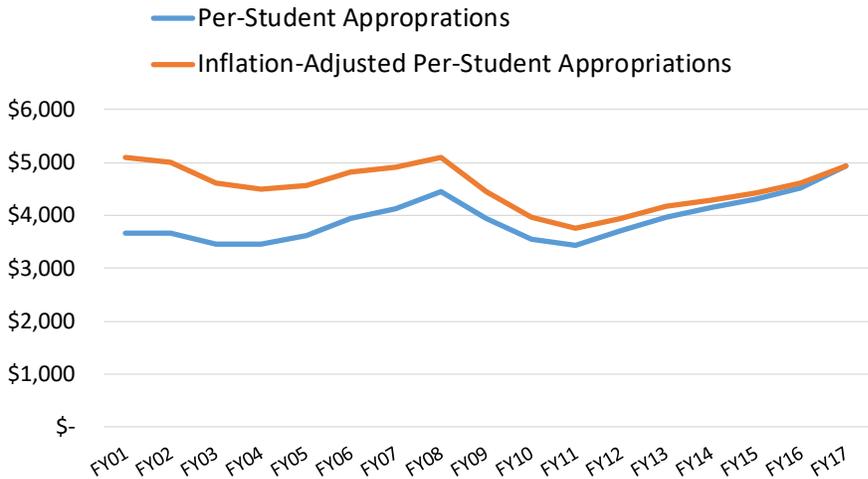


Note: "RESEARCH INSTITUTION AVERAGE" does not include the Medical University of South Carolina. Adjusted for inflation using the Higher Education Price Index.

Sources: Commission on Higher Education, Commonfund Institute

As shown in Graph 3.8, in FY 16-17 per-student state recurring general fund and Education Improvement Act appropriations for K-12 education, adjusted for inflation, were approximately the same as in FY 00-01.

Graph 3.8: Per-Student Recurring General Fund and Education Improvement Act Appropriations for K-12 Education, Adjusted for Inflation (Constant FY 16-17 Dollars)



Note: Enrollment is measured by 135-day average daily membership. Enrollment statistics do not include special schools. Appropriations include recurring general fund appropriations for the Department of Education and Education Improvement Act appropriations. Adjusted for inflation using the Consumer Price Index for All Urban Consumers.

Sources: S.C. Revenue and Fiscal Affairs Office, Executive Budget Office, U.S. Bureau of Labor Statistics

General Fund Appropriations for Scholarships Supplanted By ELA Funds

ELA funding has supplanted state general fund appropriations for scholarships. In FY 02-03, the state’s core scholarship programs (LIFE, HOPE, Palmetto Fellows, Need-Based Grants, Tuition Grants, and Tuition Assistance) received nearly \$86 million in general fund appropriations, which accounted for about half of their initial funding. By FY 17-18, these programs received just \$50 million from the General Fund, or 13% of their initial funding, with the remaining 87% coming from the ELA.

The shift away from general funds is even more pronounced among the state’s merit-based scholarships. In FY 02-03, 52% of initial appropriations for merit-based scholarships was from the state General Fund, but by FY 16-17, this percentage was reduced to 4%. Initial ELA appropriations for merit-based scholarships increased from approximately \$51 million in FY 02-03 to \$288 million in FY 17-18, while at the same time general fund appropriations for those scholarships decreased from approximately \$61 million to \$12 million.

Process for Ensuring ELA Funds Supplement Education Funding

We identified ten other states with provisions in their constitutions or statutes declaring that lottery proceeds must supplement, not supplant, existing funding for those programs that receive lottery proceeds. One state, Oklahoma, has a mechanism in place to prevent or rectify the replacement of existing funds with lottery proceeds. The Oklahoma state constitution requires an annual review to determine if education funds were enhanced or supplanted by lottery proceeds. If lottery proceeds are determined to have supplanted existing funds, then the legislature is required to appropriate the amount supplanted to the Oklahoma Education Lottery Trust Fund before it can appropriate funds for the following fiscal year.

Unlike in Oklahoma, South Carolina has no such enforcement mechanism. There is no clear instruction in state law for what should be done if the education funding requirement in S.C. Code §59-150-350(D) is not met. Such a provision could help to ensure that education funding is at or above required levels.

Recommendations

3. The General Assembly should consider amending state law to establish an explicit minimum percentage of total recurring general fund and special fund appropriations that are required to be allocated for education.
4. The General Assembly should amend state law to clarify how to calculate education appropriations for the purposes of the education funding requirement in S.C. Code §59-150-350(D).
5. The General Assembly should amend state law to require the Revenue and Fiscal Affairs Office to produce periodic reports during the appropriations process to ensure compliance with the funding requirement in S.C. Code §59-150-350(D).
6. The General Assembly should amend state law to require the Revenue and Fiscal Affairs Office to produce an annual report assessing compliance with the education funding requirement in S.C. Code §59-150-350(D) in the prior fiscal year.

Implementation Status of 2014 LAC Recommendations

During our audit, we reviewed five recommendations made in our 2014 report titled *A Review of the State's Use of South Carolina Education Lottery Proceeds* (October 2014). Four recommendations were concerned with how Education Lottery Account (ELA) funds were spent by outside organizations. One recommendation concerned communication between two agencies prior to the disbursement of capital funds for technical colleges.

STATUS OF 2014 RECOMMENDATIONS			
	IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT APPLICABLE
HIGHER EDUCATION	1	1	1
K-12	0	1	1
TOTAL	1	2	2

Higher Education

We reviewed the implementation status of three outstanding LAC recommendations to the S.C. Commission on Higher Education (CHE) and the State Board for Technical and Comprehensive Education (SBTCE).

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.

IMPLEMENTED

CHE has implemented this recommendation.

In our 2014 review, we found that CHE did not have a program in place to verify that lottery-funded scholarships were going to students who were eligible to receive them.

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 scholarships under its purview at least once within a three-year cycle.

According to a CHE official, in January 2016, CHE hired an auditor to conduct site visits at the 55 institutions receiving ELA scholarship and grant disbursements to review all lottery-funded programs at public/independent two-year and four-year institutions except Lottery Tuition Assistance (LTA) awards made by the technical colleges. See recommendation 2 regarding the review of LTA grants made by the technical colleges.

During its reviews, CHE selects a sample of students from each program to test for initial eligibility, continuing eligibility, disbursements to student accounts, and record retention/completeness. The institutional reports summarize the procedures performed and any instances of non-compliance with state law and regulations, or weaknesses in program management. Each institution provides a response to each finding which may include actions taken to correct the error. Annual reports are sent to the House Ways and Means and the Senate Finance committees, as well as the Executive Budget Office by October 1st each year, summarizing, by institution, how lottery funds were expended in the prior fiscal year, issues and concerns noted, and institution responses to the issues and concerns discovered as a result of the commission's verification activities during the prior fiscal year, if any.

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.

PARTIALLY IMPLEMENTED

SBTCE has partially implemented this recommendation.

In 2014, we found that SBTCE had not conducted a review of LTA program disbursements to ensure that funds were allocated according to law and policy.

In our follow-up, we found that 7 of the 16 technical colleges had undergone a separate LTA eligibility review in FY 16-17. Beginning in FY 17-18, SBTCE requires each of the 16 technical colleges to contract with its independent accounting firm to perform a separate review of LTA program eligibility each year, or, if necessary, SBTCE will perform the LTA program eligibility review itself.

Because the first year that will be addressed by this program has not yet ended, the recommendation is partially implemented.

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.

NOT APPLICABLE

This recommendation is not currently applicable.

In our 2014 review, we found that the FY 13-14 Appropriations Act required that capital funds for technical colleges be distributed by CHE. An SBTCE official, however, stated that CHE did not inform the agency of the transfer of funds for capital projects to the technical colleges. CHE disbursed \$8,090,000 appropriated for capital projects that year.

In our follow-up, we found that this recommendation is not currently applicable. The appropriations acts subsequent to FY 13-14 have not allocated capital funds to CHE for disbursement to the technical colleges.

K-12

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.

NOT APPLICABLE

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.

PARTIALLY IMPLEMENTED

We reviewed the implementation status of two outstanding LAC recommendations to the S.C. Department of Education (SDE).

This recommendation is not currently applicable.

In 2014, we found that SDE did not follow state law for distributing ELA funds to school districts for the K-5 programs, which required a grant program and an evaluation component to measure student performance in disbursing the funds. S.C. Code §59-1-525 required a school-wide grant program to increase the academic performance of students in the K-5 core academic areas.

In our follow-up, we found that this recommendation is not currently applicable. Beginning in FY 15-16, the General Assembly ceased funding the grant program.

SDE has partially implemented this recommendation.

In 2014, we found that SDE did not have an independent, consistent program for monitoring the spending of ELA funds by school districts and special schools. SDE conducted an annual K-8 lottery survey regarding the use of ELA funds. While this survey collected self-reported district data, it did not independently verify that the districts were properly spending ELA funds.

In our follow-up, we found that the FY 16-17 Appropriations Act Proviso 3.1 stated that:

Each state agency receiving lottery funds shall develop and implement procedures to monitor the expenditures of lottery funds in order to ensure that lottery funds are expended in accordance with applicable state laws, rules, and regulations.... [The] Department of Education guidelines shall be reported to the Executive Budget Office by October 1, 2016.

We also found that SDE had established audit procedures in its FY 16-17 Annual Audit Guide for independent auditors to use when reviewing school district expenditures. This guide includes procedures for ensuring compliance with annual budget provisos pertaining to expenditures made with lottery funds. However, these procedures are presented in the guide as “suggested.” In addition, Proviso 3.1 did not require that these audit reports indicate the auditing standards used to monitor the expenditure of lottery funds.

We reviewed the independent audits conducted for FY 16-17 of each school district in South Carolina. SDE officials indicated that the independent auditors followed “suggested” audit procedures in SDE’s Annual Audit Guide to determine school district compliance with budget provisos governing the expenditure of lottery funds. However, the auditors’ reports did not indicate that the auditors followed these procedures. By contrast, these audit reports indicate that the auditors followed *Government Auditing Standards* issued by the Comptroller General of the United States and the requirements of the Governmental Accounting Standards Board in their reviews of the districts’ financial statements.

It is important to note that the General Assembly did not allocate lottery funds to school districts in FY 17-18.

In FY 16-17, SDE also developed an internal audit program through which it monitors lottery expenditures by SDE and expenditures by other entities, including special schools. The FY 16-17 audit was ongoing during our review period.

Recommendations

7. If the General Assembly does not intend to fund the K-5 core academic program authorized by S.C. Code §59-1-525, it should delete this section of the law.
8. The General Assembly should amend state law to require independent auditors that use the South Carolina Department of Education’s Annual Audit Guide when reviewing local school districts to indicate in their reports that they are using the guide as an auditing standard.

Recommendations

Rec. #	THE S.C. GENERAL ASSEMBLY SHOULD:	Page
Chapter 2		
1.	<p>(a) Ensure it acts consistently with S.C. Code §59-150-350(D) and §59-150-230(I) when appropriating Education Lottery Account funds to specific programs; or</p> <p>(b) Amend state law to be consistent with program appropriations.</p>	10
2.	<p>Discontinue appropriating funds from the Education Lottery Account for gambling addiction programs and do one of the following:</p> <p>(a) Amend state law to require the South Carolina Education Lottery to allocate a specific annual amount of its operating expenses to the Department of Alcohol and Other Drug Abuse Services for gambling addiction programs; or</p> <p>(b) Appropriate a specific amount annually from the General Fund to the Department of Alcohol and Other Drug Abuse Services for gambling addiction programs.</p>	10
Chapter 3		
3.	Consider amending state law to establish an explicit minimum percentage of total recurring General Fund and special fund appropriations that are required to be allocated for education.	24
4.	Amend state law to clarify how to calculate education appropriations for the purposes of the education funding requirement in S.C. Code §59-150-350(D).	24
5.	Amend state law to require the Revenue and Fiscal Affairs Office to produce periodic reports during the appropriations process to ensure compliance with the funding requirement in S.C. Code §59-150-350(D).	24
6.	Amend state law to require the Revenue and Fiscal Affairs Office to produce an annual report assessing compliance with the education funding requirement in S.C. Code §59-150-350(D) in the prior fiscal year.	24
Chapter 4		
7.	Delete S.C. Code §59-1-525 if they do not intend to fund the K-5 core academic program authorized by this section of the law.	29
8.	Amend state law to require independent auditors that use the South Carolina Department of Education's Annual Audit Guide when reviewing local school districts to indicate in their reports that they are using the guide as an auditing standard.	29

Appendix A
Recommendations

Lottery Appropriations Not Specified by State Law

FY 02-03 Through FY 17-18	
COMMISSION ON HIGHER EDUCATION	
Technology – Public Four-Year Universities, Two-Year Institutions, and State Technical Colleges	\$163,579,759
Academic Facility Building, Repair, Maintenance & Training	42,590,136
Partnership Among South Carolina Academic Libraries (PASCAL)	6,216,157
Critical Equipment Repair and Replacement – Public Four-Year Universities, Two-Year Branch Campuses, and State Technical Colleges	2,825,028
Statewide Electronic Library	2,000,000
University Center	800,000
Southern Regional Education Board (SREB) Program and Assessments	663,062
Carolina Career Clusters Grant	300,000
Administration	192,817
Clinton Junior College, Maintenance and Improvement in Institutional Facilities	123,017
Coker College, Support for Memorial Professorships	123,017
Southern Methodist College, Maintenance and Improvement in Institutional Facilities	75,933
Commission on Higher Education Total	\$219,488,926
S.C. DEPARTMENT OF EDUCATION	
Technology Initiative	\$87,866,928
Instructional Materials	24,904,095
6-8 Reading, Math, Science & Social Studies Program	22,000,000
Digital Instructional Material	9,000,000
Textbooks	6,367,395
Efficiency Study	3,100,000
College and Career Readiness	3,000,000
First Steps	3,000,000
Mobile Device Access and Management	3,000,000
Testing	2,717,662
Data Collection	2,048,925
Dynamic Report Card System	1,695,000
Governor's School for the Arts	1,000,000
Report Cards	971,793
Reading Partners	800,000
Governor's School of Science and Math	674,000
School Attuned Program	500,000
High Schools That Work	500,000
Student Identifier	488,000
Agriculture in the Classroom	250,000
New Carolina Transformation in Education	100,000
S.C. Department of Education Total	\$173,983,798

FY 02-03 Through FY 17-18	
STATE BOARD FOR TECHNICAL AND COMPREHENSIVE EDUCATION	
Allied Health Initiative	\$23,150,000
Workforce Scholarships & Grants	18,000,000
Critical Training Equipment	5,912,307
Technical Colleges Deferred Maintenance	5,234,685
Center for Accelerated Technology Training/Ready SC	2,000,000
Manufacturing Skills Standards Council Initiative	1,275,000
Spartanburg Tech, Cherokee County Campus	500,000
Self-Paced In-Classroom Education Program (SPICE)	250,000
State Board on Technical and Comprehensive Education Total	\$56,321,992
SOUTH CAROLINA STATE UNIVERSITY	
Unrestricted	\$44,000,000
South Carolina State University Total	\$44,000,000
SCHOOL FOR THE DEAF AND THE BLIND	
Technology	\$2,600,000
Bus Purchase/Lease	1,050,000
School for the Deaf and the Blind Total	\$3,650,000
DEPARTMENT OF ALCOHOL AND OTHER DRUG ABUSE SERVICES	
Gambling Addiction Services	\$2,950,000
Department of Alcohol and Other Drug Abuse Services Total	\$2,950,000
STATE LIBRARY	
Union County Carnegie Library Renovations	\$1,250,000
State Library Total	\$1,250,000
OFFICE OF EXECUTIVE POLICY AND PROGRAMS	
SC Alliance of Boys & Girls Clubs, Inc.	\$1,000,000
Office of Executive Policy and Programs Total	\$1,000,000
UNIVERSITY OF SOUTH CAROLINA – AIKEN	
Science Center – Roof & HVAC Repair/Replacement	\$575,000
University of South Carolina – Aiken Total	\$575,000
STATE MUSEUM	
Arts Partnership of Greater Spartanburg	\$500,000
State Museum Total	\$500,000
FRANCIS MARION UNIVERSITY	
Nursing Program	\$250,000
Francis Marion University Total	\$250,000
CHESTERFIELD COUNTY SCHOOL DISTRICT	
Unrestricted	\$100,000
Chesterfield County School District Total	\$100,000
TOTAL Lottery Appropriations Not Specified by State Law	\$504,069,716

Agency Comments

Appendix C
Agency Comments



Tim Hardee
System President

May 29, 2018

BOARD MEMBERS

Ralph A. Odom, Jr.
Chairman
Fifth Congressional District

Warren L. Helm
First Congressional District

Robert E. Barnett
Second Congressional District

Anthony G. Barker
Third Congressional District

Stephen J. Burry
Fourth Congressional District

Gregory B. Askins
Sixth Congressional District

Philip G. Homan
Seventh Congressional District

Gwendolyn A. Bright
At-Large

Montez C. Martin, Jr.
At-Large

Roger P. Schrum
At-Large

Matthew L. Yaun
At-Large

Molly M. Spearman
Ex Officio

Robert M. Hitt III
Ex Officio

K. Earle Powell, Director
Legislative Audit Council
1331 Elmwood Avenue #315
Columbia, SC 29201

On May 21, 2018, the State Board for Technical and Comprehensive Education received the section of your final report relevant to our agency. As requested, we have reviewed your recommendation and our response is below.

Recommendation:

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

Management's Response:

We agree with the recommendation and, as mentioned in the report, have already taken steps to improve our LTAP monitoring process. Specifically, beginning with fiscal year 17-18, we will require that all 16 technical colleges contract with their independent accounting firms for performance of a separate review of LTAP eligibility each fiscal year. When the firms issue their reports in October of each year, we will retain and review copies and will follow up on any discrepancies.

Sincerely,

Tim Hardee, Ed.D.
System President and Executive Director





STATE OF SOUTH CAROLINA
DEPARTMENT OF EDUCATION

MOLLY M. SPEARMAN
STATE SUPERINTENDENT OF EDUCATION

May 30, 2018

K. Earle Powell
Director
South Carolina Legislative Audit Council
1331 Elmwood Drive, Suite 315
Columbia, SC 29201

Dear Mr. Powell:

Per the request of the Legislative Audit Council dated May 25, 2018, the agency is responding in writing to the audit report on the implementation of the status of the 2014 LAC Recommendations included in the report entitled *A Review of the State's Use of South Carolina Education Lottery Proceeds*.

The agency has continued concerns with the wording of the findings in Recommendation number 5. Auditing firms that conduct audits of governmental entities, to include local school districts, follow a standard set of guidelines found in the Generally Accepted Government Auditing Standards published through the United States Government Accountability Office. Additionally, auditing firms conducting audits of school districts in South Carolina follow the established auditing procedures as published in the annual South Carolina Department of Education Annual Audit Guide.

The findings cited in Recommendation 5 and subsequent information in Recommendation 7 seem to erroneously state that the procedures used by the auditors and published by the department are not followed simply because the audit did not cite the agency Annual Audit Guide in the final report. The department sent information to the LAC that included work papers from one of the audit firms that audit a fair percentage of school districts around the state that documented use of both the Generally Accepted Government Auditing Standards and the South Carolina Department of Education Annual Audit Guide. Additionally, the finding in Recommendation 5 suggests that the use of the word "suggested" in the South Carolina Department of Education Annual Audit Guide is taken to mean optional, which is not operationally the case. As is stated on the US GAO website and in the title, the national standards are "generally accepted", however that should not be construed to mean they were not used. The terms "generally" and "suggested" are phrased as such so auditors have a clear starting

point, but are not limited when during the course of an audit, findings require additional procedures and investigation.

The agency will continue to follow proper auditing procedures for all school districts and will implement laws and regulations as approved by the General Assembly.

Please advise if further information or communication is required.

Sincerely,



Molly M. Spearman

MMS/eh

COMMISSION ON HIGHER EDUCATION reviewed portions of the preliminary and final draft of this report and did not provide comments to be included in the final report.

This report was published for a total cost of \$44; 30 bound copies were printed at a cost of \$1.47 per unit.

