



## A Review of the South Carolina Research Authority (SCRA)

### INTRODUCTION

This is a follow-up review of the audit, *A Review of the South Carolina Research Authority (SCRA)*, released by the Legislative Audit Council in August 2005. This review was conducted to determine the extent to which recommendations presented in the 2005 report have been addressed. A copy of the original report can be obtained through the contact information on the back of this report.

Our August 2005 audit found that SCRA provided substantial benefits to the state through activities related to its mission. SCRA had earned significant revenues for doing research and development projects for the federal government. SCRA had 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. Our review of SCRA's salaries, travel expenses, and management of its research parks did not identify problems. However, we recommended some changes to ensure that the SCRA's benefits continue. During our follow-up review, we found that SCRA has complied with our three recommendations for improvement. The General Assembly did not implement our recommendation regarding SCRA's funding of research innovation centers. Each of our 2005 recommendations is listed below and followed by its current implementation status.

### BACKGROUND

At the request of the General Assembly, we conducted an audit of the South Carolina Research Authority (SCRA). The 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.

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.

Legislation enacted in 2005 expanded the mission of the SCRA to include the establishment of Research Innovation Centers in conjunction with each of the state's three research universities. A private nonprofit entity known as SC Launch! was created to implement this legislation.

### RECOMMENDATIONS & CURRENT STATUS

1. *The South Carolina Research Authority should communicate more fully to the General Assembly regarding its mission, operations, activities, and organizational structure.*

Our 2005 audit found that SCRA's annual report did not provide adequate information to state officials; SCRA's 2002, 2003, and 2004 annual reports focused on highly technical descriptions of its research and development work and omitted basic information about agency structure and operations.

In our follow-up, we found that SCRA has implemented this recommendation. SCRA's 2006 Annual Report provides more comprehensive and accessible information to state officials regarding SCRA's operations and organizational structure. The report also includes more financial information than previous annual reports.

*2. The General Assembly should consider amending §13-17-87(D)(1) to adjust South Carolina Research Authority's funding requirements to an amount that will preserve SCRA's operations and benefits to the state.*

S.C. Code §13-17-87(D)(1) requires SCRA to make a total of \$12 million in contributions to research innovation centers. In our 2005 audit, SCRA officials stated that funding the innovation centers and a building for the Applied Research & Development Institute (ARDI) at the Clemson Research Park could result in a cash shortfall beginning in FY 06-07.

The General Assembly did not revise S.C. Code §13-17-87(D)(1) to adjust SCRA's funding requirements. SCRA contributed \$3 million to the research innovation centers (SC Launch!) in FY 05-06, \$ 4 million in FY 06-07, and plans to contribute the remaining \$5 million in FY 07-08. In our follow-up, an SCRA official noted that the General Assembly has enacted legislation that allows tax credits for qualified contributions to an Industry Partnership Fund, which will provide additional funding for the research innovation centers. Due to delays in the construction of the Clemson research facility, SCRA has not yet experienced the cash shortfalls it predicted in 2005. An official at SCRA predicted that beginning the research facility, in coincidence with the final payment to SC Launch!, will reduce SCRA's available cash balances in FY 07-08. However, according to an SCRA official, SCRA's annual revenues have been greater than anticipated. Revenues have increased from \$68 million in FY 03-04 to \$94 million in FY 06-07.

This follow-up was limited to the issues in the 2005 audit for which we made recommendations. We received information from the South Carolina Research Authority regarding the implementation of the recommendations in the audit. We reviewed this and other information, and verified evidence supporting the agency information as appropriate.

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*3. The South Carolina Research Authority should ensure that public funds are spent in compliance with state law.*

Our 2005 audit found that SCRA made expenditures that did not meet criteria for the expenditure of public funds. Specifically, SCRA used funds to make financial contributions to charitable organizations and for parties for its employees.

We concluded that SCRA has implemented this recommendation. SCRA officials stated that they have discontinued its annual holiday party and charitable contribution program. We reviewed accounting reports and did not identify any contributions similar to the ones made in FY 02-03 and FY 03-04.

*4. SCRA and its affiliated entities should recognize and document any apparent conflicts of interest involving its employees and ensure that the relevant governing board is informed and approves of these situations.*

Our 2005 audit found two cases in which SCRA's documentation of apparent employee conflicts of interest could be improved.

Although the evidence was not conclusive, we determined that SCRA has implemented a policy which should result in compliance with our recommendation. We identified one case in which a member of the executive management team reported a potential conflict of interest to the SCRA director in 2006. There was no documentation that the relevant governing board was informed of the potential conflict. However, according to the SCRA director, management concluded that this situation was not a conflict of interest, so no further action was necessary.

In 2007, SCRA made changes to its conflict of interest policy. SCRA's new policy requires the executive management team to submit annual potential conflict of interest statements. The SCRA director and vice-president of human resources are to inform the governing board of any conflicts. SCRA provided us with conflict of interest disclosure statements that were submitted in July/August 2007. According to an SCRA official, there were no disclosures that required action to mitigate or resolve potential conflicts. We concluded that the new policy should provide adequate guidance to ensure the recognition and documentation of conflicts of interest.