



COMMONWEALTH HEALTH RESEARCH BOARD

REPORT ON AUDIT FOR THE PERIOD JULY 1, 2020 THROUGH JUNE 30, 2022

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Commonwealth Health Research Board for the period July 1, 2020, through June 30, 2022, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system;
- no matters involving internal control and its operation necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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BOARD HIGHLIGHTS

The Commonwealth Health Research Board (Board) provides grant funding for human health research projects that could potentially benefit citizens of the Commonwealth. The Board awards both one and two-year grants from the Commonwealth Health Research Fund (Fund) to institutions of higher education and certain non-profit organizations. The Department of Accounts provides administrative and accounting support, and the Virginia Retirement System (Retirement System) invests moneys for the Fund.

Research eligible for grant funding includes traditional medical and biomedical research related to the cause and cure of human diseases, as well as research related to health services and delivery of health care. The Board gives priority to research projects where the Board's funding can provide leverage for receiving contributions from other sources. Institutions receiving grant awards must contribute matching funding of 33 percent of the grant award, which increases total funds for each project.

For all grant awards, the Board disburses 75 percent of grant funding upon the signing of the grant agreement. Grant awards approved by the Board for a two-year term receive the second-year disbursement upon demonstration of satisfactory progress, compliance with reporting requirements, and compliance with the terms and conditions of the grant agreement. For both one and two-year grants, the Board will disburse the remaining 25 percent upon satisfactory review of final scientific and fiscal reports.

Financial Operations

Revenues and Grant Awards

The Fund's primary source of revenue is investment income. The Fund uses investment managers of the Retirement System and pools the Fund's resources with the Retirement System's investment portfolio. In doing so, the Fund's investment strategy mirrors that of the Retirement System. The Retirement System discloses its investment portfolio and risks in the Virginia Retirement System's Annual Comprehensive Financial Report.

As shown in the table below, the Fund's portfolio experienced a gain of 26.55 percent in fiscal year 2021 primarily due to the high performance of the primary asset class programs and multi-asset strategies in the portfolio. However, the Fund portfolio experienced a .10 percent loss in fiscal year 2022 primarily due to the low performance of public stock and bond markets in the portfolio.

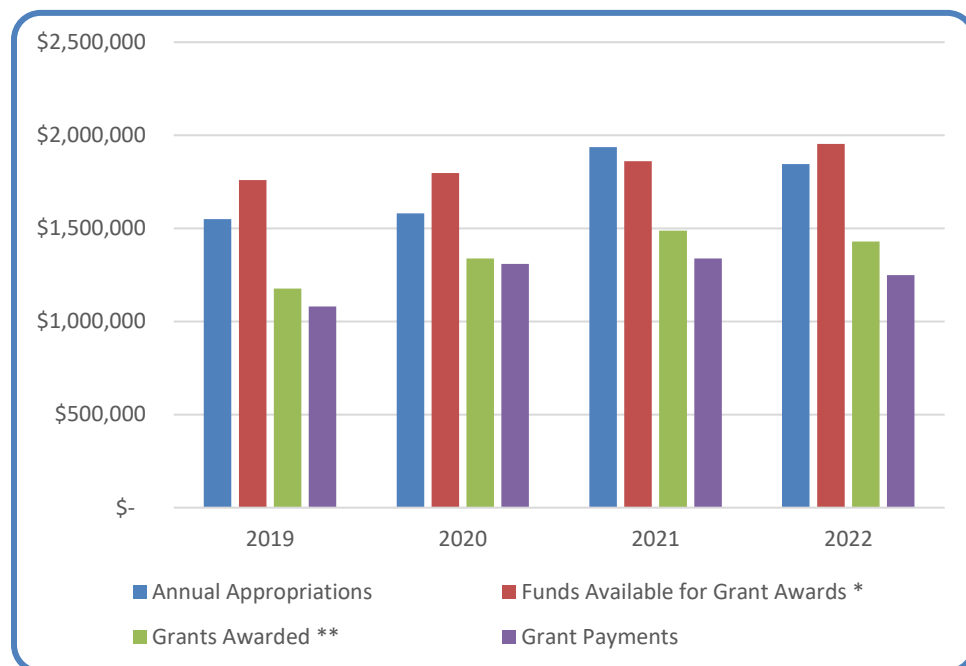
Activities and Balances of the Board's Investments

Fiscal Year	Beginning Balance July 1	Investment Income (Loss)	Grants and Expenses	Ending Balance June 30	Annual Investment Return
2019	39,316,164	2,590,434	(1,425,989)	40,480,608	6.59%
2020	40,480,608	755,227	(1,602,418)	39,633,418	1.87%
2021	39,633,418	10,522,619	(1,766,112)	48,389,925	26.55%
2022	48,389,925	(48,918)	(1,733,892)	46,607,115	-0.10%

Source: Virginia Retirement System's Commonwealth Health Research Board Fund Activity Reports

The Fund's balance affects the amount of grants the Board can award. Section 32.1-162 of the Code of Virginia sets annual grant funding available as an amount not to exceed six percent of the moving market value of the Board's funds calculated over the previous five years. To be conservative and provide an accurate calculation of the funding available, the Board deducts administrative expenses from the amount set by the Code of Virginia to determine the amount available for actual grant awards. The Code of Virginia does not require the Board to spend the maximum allowed in a calendar year. Funding up to the allowable six percent threshold that the Board does not spend in a given calendar year may be spent in any future calendar year. Further, the Appropriation Act sets out the annual amount authorized for disbursement; this amount was set at \$1,936,111 and \$1,846,112 for fiscal years 2021 and 2022, respectively. The chart below displays the amount of funding available to the Board for grant issuance and actual grant payments made.

Grant Funding and Awards



Source: Commonwealth's accounting and financial reporting system

*The Board annually determines what grant funding scenario to use, deducting administrative expenses and ensuring awards do not exceed six percent of the moving market value.

**The Board annually draws down grant awards for disbursement from the Retirement System based upon demonstrated satisfactory progress by recipients, hence the disbursements do not always occur sequentially with the drawdown of grant awards.

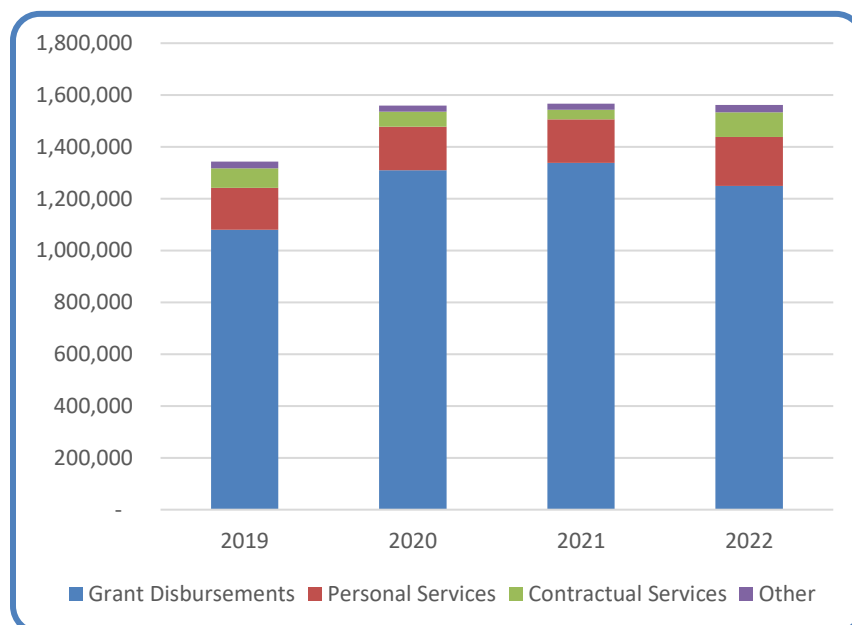
Collaboration with Virginia Biosciences Health Research Corporation

During 2017, the Board announced its support of a collaborative project with the Virginia Biosciences Health Research Corporation (Corporation). Chapter 552, of the 2021 Virginia Acts of Assembly Special Session 1, continues to allow the Board to direct up to \$2.5 million of funds managed toward collaborative research projects approved by both the Corporation and the Board. The Board distributed a total of \$199,730 toward the grant established in 2017 to fund a research project at Eastern Virginia Medical School and George Mason University, with the final grant disbursement in September 2021.

Expenses

Grant awards account for 83 percent of the Board's use of funding, while significant expenses relate to personal and contractual services. Personal services consist of compensation received by the Board Administrator, as set by the Board, for daily coordination and administration of the grant program. Contractual services primarily relate to payments made to scientific reviewers for grant review and monitoring of grantees' processes. As the chart below depicts, personal services increased in fiscal year 2022 due to a Board approved increase in salary for the Board Administrator. Additionally, contractual services increased from fiscal years 2021 to 2022 as a result of reduced COVID-19 pandemic restrictions in 2022 resulting in additional management services rendered and the Board paying May and June 2021 services in August 2021.

Analysis of Expenses by Type



Source: Commonwealth's accounting and financial reporting system



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April 21, 2023

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Commonwealth Health Research Board** (Board) for the period of July 1, 2020 through June 30, 2022. 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.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions in the Commonwealth's accounting and financial reporting system, review the adequacy of the Board's internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

The Board's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. 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, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Administrative expenses, including payroll
Contractual service expenses
Grant revenues and expenses
Investment transfers and fund balances

We performed audit tests to determine whether the Board'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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Board's operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We found that the Board properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and financial reporting system relating to the audit objectives. The financial information presented in this report came directly from the Commonwealth's accounting and financial reporting system.

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference and Report Distribution

We discussed this report with management on May 25, 2023.

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.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

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COMMONWEALTH HEALTH RESEARCH BOARD

As of June 30, 2022

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Member

Francis X. Farrell
Member

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