

VIRGINIA FOUNDATION FOR HEALTHY YOUTH

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2012**



AUDIT SUMMARY

Our audit of the Virginia Foundation for Healthy Youth for the year ended June 30, 2012 found:

- proper recording and reporting of all transactions, in all material respects, in the *Commonwealth Accounting and Reporting System*;
- no matters involving internal control and its operations 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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FOUNDATION HIGHLIGHTS

Foundation Overview

The Virginia Foundation for Healthy Youth (Foundation) annually receives ten percent of the Commonwealth of Virginia's (Commonwealth) portion of funds from the Master Settlement Agreement (MSA) with tobacco manufacturers. However, Chapter 890 of the 2011 Acts of Assembly reduced this allocation to 8.5 percent for fiscal years 2011 and 2012. A Board of Trustees (Board), comprised of 23 members, governs and administers the Foundation. The Board establishes the Foundation's budget and specific criteria and procedures for distributing money in the Virginia Tobacco Settlement Fund. The Foundation uses its funding to finance educational and awareness programs on the health effects of tobacco use by youth, and on childhood obesity. The Foundation also uses funds to conduct research related to the prevention of childhood obesity and tobacco use among youth.

The Board established four Regional Advisory Boards to provide a local connection between the Foundation and communities throughout the Commonwealth. The Advisory Boards oversee the review process to select recipients that receive program grants to fund prevention programs that discourage tobacco use by minors and help mitigate childhood obesity. The Foundation funds a statewide marketing campaign to reduce the use of tobacco among youths.

The Department of Health acts as the fiscal agent for the Foundation and provides fiscal and payroll services. The Foundation employs an executive and deputy director, a business manager, and 12 staff members. The staff includes four regional grant program administrators. These administrators are responsible for managing the program grants issued throughout the Commonwealth.

Financial Operations

The Board develops the Foundation's budget using a modified-accrual basis of accounting. At year-end, the Foundation had cash and cash equivalents of \$9.2 million, of which it needed \$636 thousand to pay grant and contract commitments due at year-end.

National tobacco manufacturers provide Budgeted Master Settlement Agreement revenue to a third party financial analysis company. MSA projected revenue was \$9.37 million for 2012, actual funds available were \$9.56 million. Tobacco manufacturers are withholding the ten percent of the total MSA payments to states because they are losing market share to those manufacturers that did not participate in the MSA. Currently, the issue is in litigation and the Foundation is still unsure whether they will ever receive all or a part of these withheld funds.

Over the past three years, MSA payments have fluctuated due to the rise and fall of tobacco sales, requiring the Foundation to adjust its budget accordingly. To handle such unexpected changes in the budget, the Board reviews the budget at every board meeting to discuss and approve any changes.

The Staff develops a three-year budget plan that the Board considers a year in advance of its effective date so the Board can monitor long-term programs. The schedule on page 3 below is a complete schedule of Revenues, Expenditures, and Changes in Fund Balances Budgetary Comparison. This schedule reflects actual revenues and expenses compared to Board approved budgets for fiscal year 2012.

Marketing Campaign

In 2001, the Foundation launched a statewide multimedia marketing campaign called the Y-Campaign. The mission of the Y-Campaign is to reduce youth tobacco use in the Commonwealth by empowering Virginia youth to choose a healthy lifestyle. The campaign integrates messages through a multi-media marketing effort, including television, radio commercials, an interactive web site (www.ydouthink.com), internet banner ads, outdoor and cinema advertising, and street marketing activities.

In order to achieve the goals of the Y-Campaign the Foundation administers the following contracts. The marketing contracts cover the period of July 1, 2011 through June 30, 2012.

<u>Contract</u>	<u>Amount</u>
Barber Martin Advertising (Y - Campaign)	\$3,500,000
Rescue Social Change Group (Youth Advocacy Initiative)	900,000
Market Decisions, Inc. (Evaluation and Research)	150,000
Rescue Social Change Group (Evaluation and Research)	150,000
Rescue Social Change Group (Online/Interactive Activities)	150,000
R2Integrated (Online/Interactive Activities)	<u>100,000</u>
Total in Marketing Contracts	<u>\$4,950,000</u>

Barber Martin Advertising purchases media to place current and new advertisements in various medium outlets, develops new creative concepts and ideas, and produces ideas into finished advertising deliverables. The target market is ten to 17-year olds across the Commonwealth. Rescue Social Change Group schedules and manages all campaign events, employs personnel to conduct the events, and develops new concepts and ideas for reaching Virginia's youth. The focus of the street marketing effort is to provide strategic support for the Y-Campaign by directly interacting with ten to 17-year olds across the Commonwealth. Rescue Social Change Group also provides the service of website development and management, interactive media development, and interactive media planning, purchasing, and placement for the Y-Campaign. Market Decisions evaluates the effectiveness of the Y-Campaign by conducting tracking studies twice a year and preparing the Foundation with reports for each study. R2Integrated works on portions of the interactive and website components.

The Foundation monitors the marketing contracts by tracking performance through monthly, quarterly, and annual reviews. Contract renewals only occur if a vendor achieves the performance standards stipulated in their contracts.

Program Grants

The Foundation awards grants to schools, houses of faith, and other entities in the Commonwealth for the purpose of implementing tobacco prevention programs. The programs address issues related to tobacco use including prevention education, tobacco cessation, early tobacco intervention and reduction, advocacy, youth empowerment, and social skills building. The Foundation expended approximately \$3.5 million in grant funding in fiscal year 2012 for 22 Obesity prevention two-year grants, 52 three-year Tobacco prevention grants, 21 Healthy Youth Day mini grants, and one on-going Youth Survey Grant. The Foundation monitors and administers these grants to ensure recipients meet the program objectives.

Research Grants

The Foundation did not award any research grants in fiscal year 2012. In 2010, the Foundation awarded three-year research grants among seven departments at three Universities. The grants assist implementation of collaborative research projects for preventing the use of tobacco use by youths. Research topics cover areas such as etiology of youth tobacco use, psychosocial aspects, genetic predisposition to nicotine addiction, progression from experimentation to addiction, and specific youth interventions.

The Foundation has outstanding awards for 2010 research grants. Four departments at Virginia Commonwealth University received four grants totaling \$2.04 million between fiscal years 2010 and 2012; two departments at the University of Virginia received two grants totaling \$1.12 million from fiscal year 2010 through 2012; and George Mason University received a \$600 thousand grant between fiscal years 2010 and 2012.

Evaluation

The Foundation contracts with VCU and Market Decisions to evaluate the effectiveness of programs and marketing campaigns respectively at a combined annual maximum cost of \$100 thousand.

VIRGINIA TOBACCO SETTLEMENT FOUNDATION
SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES
BUDGETARY COMPARISON - SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2012

	<u>Actual</u>	<u>Budget</u>	<u>Variance over(under)</u>
Revenues:			
Grants	\$ 64,086	\$ -	\$ 64,086
Master Settlement payments	<u>9,557,501</u>	<u>9,371,777</u>	<u>185,724</u>
Total revenues:	<u>9,621,587</u>	<u>9,371,777</u>	<u>249,810</u>
Expenses:			
Administration	833,319	825,000	8,319
Inter-Agency expense	65,000	65,000	-
Marketing	3,291,727	3,315,000	(23,273)
Program expense	3,033,718	3,596,493	(562,775)
Grant Program expenses	53,262	-	53,262
Research and evaluation	1,384,533	1,350,000	34,533
Obesity	1,004,695	1,000,000	4,695
State General Fund transfers out	<u>72,062</u>	<u>75,000</u>	<u>(2,938)</u>
Total expenses	<u>9,738,316</u>	<u>10,226,493</u>	<u>(488,177)</u>
Revenues over (under) expenses	<u>(116,729)</u>	<u>(854,716)</u>	<u>737,987</u>
Fund balance, July 1, 2011	<u>8,478,854</u>		
Fund balance, June 30, 2012	<u>\$8,362,125</u>		



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 10, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the Virginia Foundation for Healthy Youth (Foundation) for the year ended June 30, 2012. 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 Accounting and Reporting System, review the adequacy of the Foundation's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

The Foundation's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. 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 and regulations.

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.

- Master Settlement Agreement revenue
- Contractual and grant management
- Vendor payments
- Small purchase charge cards
- Budget control

We performed audit tests to determine whether the Foundation's controls were adequate, were placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, vouchers, marketing and research contracts, program grants, and observation of the Foundation's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Foundation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Foundation records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Foundation's accounting system which reconciles to the Commonwealth Accounting and 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 and regulations 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 September 10, 2012.

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.

AUDITOR OF PUBLIC ACCOUNTS

LJH/clj

VIRGINIA FOUNDATION FOR HEALTHY YOUTH

Marty Kilgore, Executive Director

BOARD OF TRUSTEES

As of June 30, 2012

Robert C. Gunther M.D., Chairman

Delegate John M. O'Bannon III M.D., Vice Chairman

Sanjeev K. Aggarwal, M.D.

Sandy L. Chung, M.D.

Curtis Coleburn

Edda Collins Coleman

Kevin R. Cooper

Stacey M. Ely

Senator Thomas A. Garrett, Jr.

Delegate T. Scott Garrett

Don Gehring

John (Jay) O. James, Jr.

Robert Leek

Sarah T. Melton, Pharm.D.

Christopher S. Nicholson, M.D.

Senator Ralph Northam, M.D.

Steven G. Reardon

Karen Remley, M.D.

Davis C. Rennolds

Claudia Tellez

Youth Members

Jeffrey Logan Holland

Corey Howell