COMMONWEALTH HEALTH RESEARCH BOARD

REPORT ON AUDIT

FOR THE YEARS ENDED

JUNE 30, 2009 AND JUNE 30, 2010

APA
Auditor of
Public Accounts
COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Commonwealth Health Research Board (Board) for the period July 1, 2008 through June 30, 2010, 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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BOARD HIGHLIGHTS

Grant Program

The Commonwealth Health Research Board (Board) provides grant funding for human health research projects that could potentially benefit Commonwealth citizens. The Board awards 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 funding must provide 33 percent matching funds. This increases the total amount of funds for each project. The Board awards both one and two year grants. For one year grants, the Board disburses 75 percent of the grant funds to the recipient upon signing of the grant agreement and the remaining 25 percent after the Board approves the final scientific and financial reports that document the outcome of the research and the use of the funds.

For two year grants, grantees receive 75 percent of the first year's funding paid in July of the initial grant year. The Board pays the remaining 25 percent of the first year's funding with the second 75 percent payment at the beginning of the second year following a satisfactory review of the initial interim scientific and fiscal reports. The grantee receives the final 25 percent after a satisfactory review of the final scientific and fiscal reports, which are due no later than the end of the following August, unless the Board approves an extension.

Financial Operations

Activities

Since the Board's inception, it has awarded 130 grants totaling $9.6 million. For fiscal 2009, the Board awarded eight new grants and continued four existing two year grants totaling $1,102,030. The institutions receiving these grants provided $446,400 in matching funds. These grants went to researchers from Eastern Virginia Medical School, James Madison University, University of Virginia, Virginia Commonwealth University, and Virginia Military Institute.

For fiscal 2010, the Board awarded two new grants and continued six existing two year grants totaling $734,390. The institutions receiving these grants provided $310,338 in matching funds. These grants went to researchers from Eastern Virginia Medical School, James Madison University, University of Virginia, and Virginia Military Institute.

The Board made actual grant payments totaling $1,077,143 and $799,690 in fiscal 2009 and 2010, respectively, representing both initial and final award payments. In fiscal 2009, the Board had personnel related expenses of $59,165 and other administrative expenses totaling $35,201. In fiscal 2010, the Board had personnel related expenses of $59,215 and other administrative expenses totaling $30,764.

Investments

The Board's investments strategy mirrors that of the Retirement System, which uses fund managers to invest its much larger asset portfolio. The Retirement System discloses its investment portfolio and risks in the Commonwealth's Comprehensive Annual Financial Report issued by the State Comptroller.

The Fund that the Board uses for awarding grants has experienced losses along with the rest of the market. As shown in the schedule below, the Fund experienced a 20.76 percent loss in fiscal 2009. However, in fiscal 2010 the fund rebounded with a 14.83 percent gain on investments.

Activities and Balances of the Board's Investments

Fiscal Year	Beginning Balance July 1	Investment Income (Loss)	Transfers for Grants and Expenses	Ending Balance June 30	Annual Return on Investment
2004	24,077,564	3,387,309	(407,749)	27,057,124	14.07%
2005	27,057,124	1,996,125	(841,423)	28,211,826	7.38%
2006	28,211,826	1,790,219	(764,885)	29,237,160	6.35%
2007	29,237,160	4,488,851	(884,928)	32,841,083	15.35%
2008	32,841,083	(984,285)	(1,067,703)	30,789,095	(3.00)%
2009	30,789,095	(6,391,721)	(1,177,922)	23,219,452	(20.76)%
2010	23,219,452	3,444,515	(901,935)	25,762,032	14.83%

Source: Commonwealth Health Research Board Annual Report and Commonwealth Accounting and Reporting System

The Fund's balance affects the amount of grants the Board can award; 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.

During fiscal 2009 and 2010, the Board's funding for research grants decreased by about $41,000 and $393,000, or three percent and 31 percent, respectively, in relation to the previous year. However, the research grants the Board awarded for fiscal 2011 reflect an increase of about $47,000, or five percent, as a result of the positive change in return on investments.

Commonwealth of Virginia

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February 11, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the Commonwealth Health Research Board (Board) for the years ended June 30, 2009 and 2010. 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 Board's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

The Board'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.

Grant Awards and Expenses
Administrative Expenses
Investment Transfers and 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 and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and grant agreements, and observation of the Board's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Board properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Board 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 Commonwealth Accounting and Reporting System and the Board's Annual Report.

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 February 22, 2011.

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

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