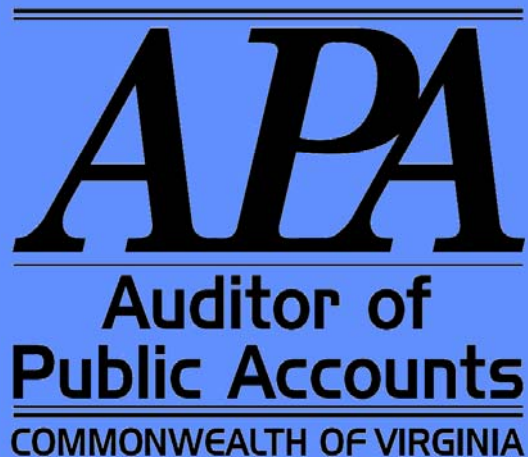


COMMONWEALTH HEALTH RESEARCH BOARD

**REPORT ON AUDIT
FOR THE TWO-YEAR PERIOD ENDED
JUNE 30, 2008**



AUDIT SUMMARY

Our audit of the Commonwealth Health Research Board (Board) for the period July 1, 2006 through June 30, 2008, 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 financial support, in the form of grants, donations, or other assistance, for health research that will have potential health benefits for citizens of the Commonwealth. The Board awards and administers grants from the Commonwealth Health Research Fund (Fund) to state agencies, Virginia colleges and universities, and certain non-profit organizations. The Department of Accounts provides administrative and accounting support and the Virginia Retirement System (Retirement System) invests moneys in the Fund.

Research eligible for grant funding includes traditional medical and biomedical research as to the cause and cure of diseases, as well as research related to health services and delivery of health care. The Board gives priority to research projects in which the Board's support 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, which have a \$200,000 total limit for each grant, the Board evenly distributes grant funding over the two years, with the grantees receiving 75 percent of each year's funding at July 1 and the subsequent 25 percent at the end of the first year or after final Board approval.

Financial Operations

Activities

Since the Board's inception, it has awarded 113 grants totaling \$8 million. During Fiscal 2007, the Board approved 12 grants totaling \$954,058 with matching funds of \$451,893 provided by the institutions receiving the grants. These grants went to researchers from the University of Richmond, Eastern Virginia Medical School, University of Virginia, and Virginia Commonwealth University. Five of the grants were two-year grant agreements.

For fiscal 2008, the Board approved 12 grants totaling \$1,105,585 with matching funds of \$512,493 provided by the institutions receiving the grants. These grants went to researchers from James Madison University, George Mason University, Eastern Virginia Medical School, University of Virginia, Virginia Polytechnic Institute and State University, and Virginia Commonwealth University. Four of the grants were two-year grant agreements.

The Board made actual grant payments totaling \$876,781 and \$956,556 in fiscal 2007 and 2008, respectively, representing both initial and final award payments. In fiscal 2007, the Board had personnel related expenses of \$53,795 and other administrative expenses totaling \$34,890. Furthermore, in fiscal 2008, the Board had personnel related expenses of \$57,285 and other administrative expenses totaling \$36,610.

Investments

On October 31, 2007 the Board transitioned to a new investment strategy proposed by the Retirement System. Under the new strategy, the Board mirrors the investment strategy of the Retirement System, which uses fund managers to actively invest its much larger asset portfolio. The new strategy allocates funds to stocks, alternative assets, and fixed income with the majority being an allocation in stocks. By taking advantage of the Retirement System's fund managers the Board should obtain greater returns over the long term as opposed to their previous passive investment strategy. Under their previous investment strategy for its funds, the Board had allocated statically its portfolio in 70 percent equities and 30 percent in bonds.

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 has, in the first eight months of fiscal year 2009, experienced a 27 percent loss on investments.

Activities and Balances of the Board's Investments

<u>Fiscal Year</u>	<u>Beginning Balance, July 1</u>	<u>Investment Income (Loss)</u>	<u>Transfers for (Grants and Expenses)</u>	<u>Ending Balance, June 30*</u>
2004	24,077,564	3,387,309	(407,749)	27,057,124
2005	27,057,124	1,996,125	(841,423)	28,211,826
2006	28,211,826	1,790,219	(764,885)	29,237,160
2007	29,237,160	4,488,851	(884,928)	32,841,083
2008	32,841,083	(935,318)	(1,067,703)	30,838,062
2009*	30,838,062	(8,592,229)	(1,177,922)	21,067,911

* Activities and ending balance for fiscal year 2009 are for the eight months ending February 28, 2009

Source: The Board

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, or since inception. To be conservative and provide a more accurate funding estimate, the Board deducts administrative expenses from the amount set by the Code of Virginia to determine the amount of actual grant awards.

During fiscal year 2008, the Board's funding for research grants decreased by \$41,000, or three percent, in relation to the previous fiscal year. The Board, as a result of the recession, is expecting the Fund's value to continue decreasing into the near future, which will decrease the amount of funds the Board has available for future grant awards.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

May 1, 2009

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Commonwealth Health Research Board** (Board) for the two-year period ended June 30, 2008. 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 on 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 materiality and control 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.

Investment Revenues
Grant Awards and Expenses

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, and inspection of documents, records, and contracts. 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 May 1, 2009.

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

GDS/clj

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