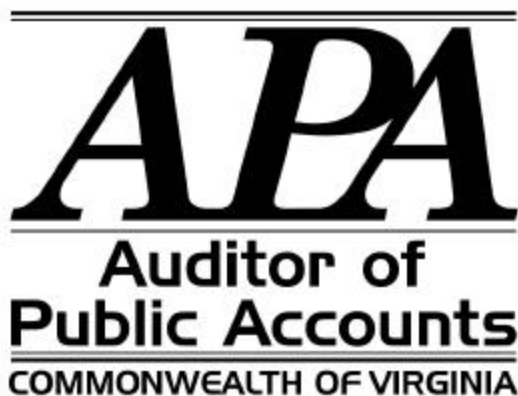


COMMONWEALTH HEALTH RESEARCH BOARD
RICHMOND, VIRGINIA

REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002



AUDIT SUMMARY

Our audit of the Commonwealth Health Research Board for the year ended June 30, 2002, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no matters involving the internal control structure and its operation that we consider material weaknesses; and
- no instances of noncompliance with applicable laws and regulations tested that are required to be reported.

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AGENCY INFORMATION

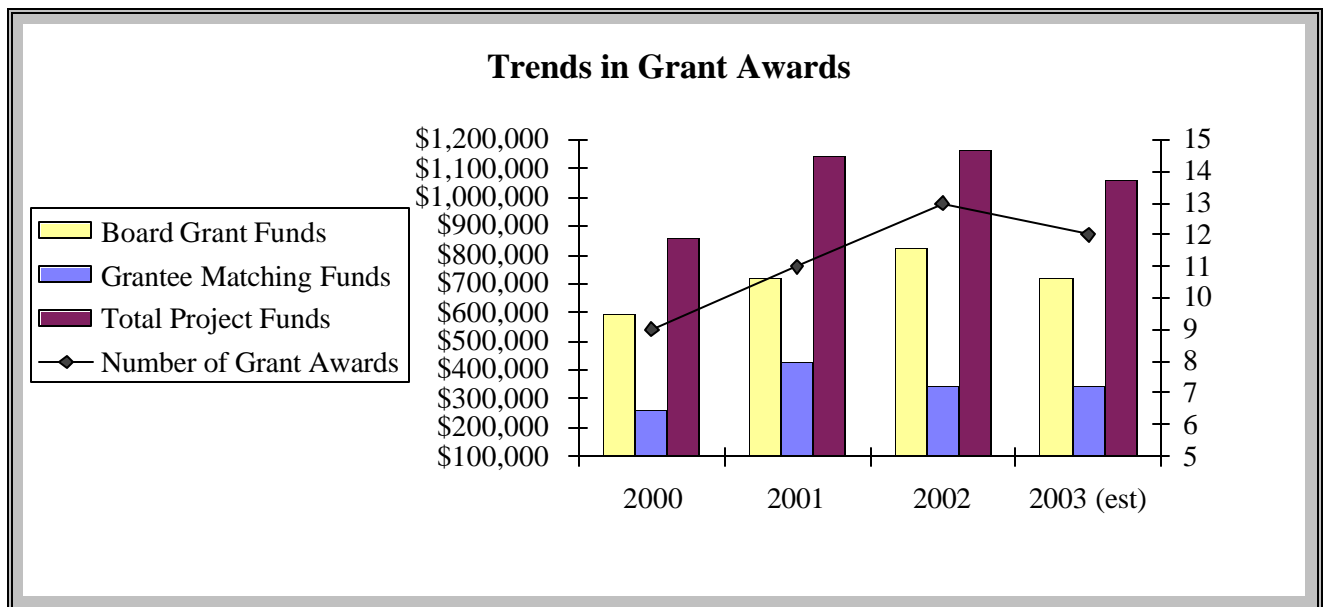
Mission and History

The **Commonwealth Health Research Board** (the 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, to state agencies, Virginia colleges and universities, and certain non-profit organizations. The State Council of Higher Education for Virginia provides administrative and accounting support and the Virginia Retirement System invests and manages the funds. In fiscal year 2003, the Board intends to move its administrative and accounting support from the State Council of Higher Education for Virginia to the Department of Accounts.

When Blue Cross and Blue Shield of Virginia converted from a non-profit mutual insurance company to a for-profit corporation, Trigon Healthcare, Incorporated, Trigon distributed 975,713 shares of stock in the new company to the Commonwealth as a part of the conversion. The Commonwealth received the stock on August 5, 1997, which it sold systematically thereafter. At the direction of the General Assembly, the Commonwealth placed the proceeds into the Commonwealth Health Research Fund under the direction of an appointed Board. The fund grew to \$27.6 million before the Board distributed the first set of awards in January 2000 to nine recipients representing a broad spectrum of health and medical research concerns.

The Board has specific guidelines and procedures for researchers submitting grant proposals. These requirements assist the Board in evaluating research proposals and determining final grant recipients. The Board announces grant recipients in the spring for research funding that begins in July. Grantees and their sponsoring institutions sign grant agreements with the Board that define their obligations. Matching funds from the sponsoring institutions increases the 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 funds expended.

Through June 30, 2002, the Board has awarded \$2,314,604 since the Fund's inception and has increased the number and amount of grant awards each year, as shown in the following chart.



Financial Position

The invested balance of the Commonwealth Health Research Fund at June 30, 2002 was \$24,191,176. During the fiscal year, the Fund experienced a loss in investment value of \$2,692,957 or 9.75 percent of fund value at the beginning of the year, due to economic conditions. Additionally, at June 30, 2002, the Board had outstanding grant payments of \$487,248 to researchers for grants that are payable upon completion of the research and presentation of the final report to the Board. This amount consists of \$280,851 for grants made in previous years and \$206,397 for grants made in fiscal 2002.

Financial Activity

For fiscal 2002, the Board approved 13 grants totaling \$825,590 to researchers from Eastern Virginia Medical School, James Madison University, Sweet Briar College, the University of Virginia, Virginia Commonwealth University, and Virginia Tech. These institutions are providing \$341,680 in matching funds in support of these grants. These grants include research into such topics as magnetic resonance imaging of the lung and of atherosclerotic plaque, early identification of shock, Alzheimer's disease, pain sensitivity, treatment of mammary carcinoma, treatment of diabetes, molecular targets for cancer therapy, herpes virus DNA inhibitors, fetal liver development, utilization of children's health services, and platelet formation.

The Board made initial grant payments of \$619,193 representing 75 percent of the awards to the sponsoring institutions in July 2001. Additionally during the year ended June 30, 2002, the Board made final payments of \$191,414 to researchers for grants awarded in fiscal 2000 and fiscal 2001. The Board had administrative expenses of \$31,494 during the year, which included payments of \$24,137 to medical consultants to assist reviewing the grant applications.

Operational Outlook

In July 2002, the Board awarded \$718,382 in grant funding during its fiscal year 2003 cycle to 12 medical and health researchers in Virginia. The researchers are from the Eastern Virginia Medical School, Sweet Briar College, Riverside Health System, Virginia Military Institute, Virginia Tech, and the College of William and Mary. These awards were well within the Code of Virginia mandate to limit grant payments to no more than six percent of the average value of the fund. This limit would allow the Board to make new grants totaling up to approximately \$1,300,000 in July 2003.

January 16, 2003

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Commonwealth Health Research Board** for the year ended June 30, 2002. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Board's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Board's operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the Board's transaction cycles and account balances relating to revenue and expenditures.

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. 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.

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.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit 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.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Governor and General Assembly, the Commonwealth Health Research Board, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on February 4, 2003.

AUDITOR OF PUBLIC ACCOUNTS

JHS:cam
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COMMONWEALTH HEALTH RESEARCH BOARD
Richmond, Virginia

BOARD MEMBERS

Hunter B. Andrews, Chairman

Edward R. Parker, Vice Chairman

David L. Bernd	Edward G. Murphy
S. Lawrence Kocot	Robert P. McBride III
Alson H. Smith, Jr.	

Anne Pace, Administrator