



COMMONWEALTH HEALTH RESEARCH BOARD

REPORT ON AUDIT FOR THE PERIOD JULY 1, 2016 THROUGH JUNE 30, 2018

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Commonwealth Health Research Board for the period July 1, 2016, through June 30, 2018, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and 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 provide 33 percent of matching funding, 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, that pool the Fund with the Retirement System's investment portfolio. In doing so, investment managers use an investment strategy that mirrors that of the Retirement System. The Retirement System discloses its investment portfolio and risks in the Commonwealth's Comprehensive Annual Financial Report issued by the State Comptroller.

The Fund has experienced gains consistent with the rest of the market. As shown in the table on the next page, the Fund experienced an 11.84 percent gain on investments in fiscal year 2017, and a 7.20 percent gain in fiscal year 2018.

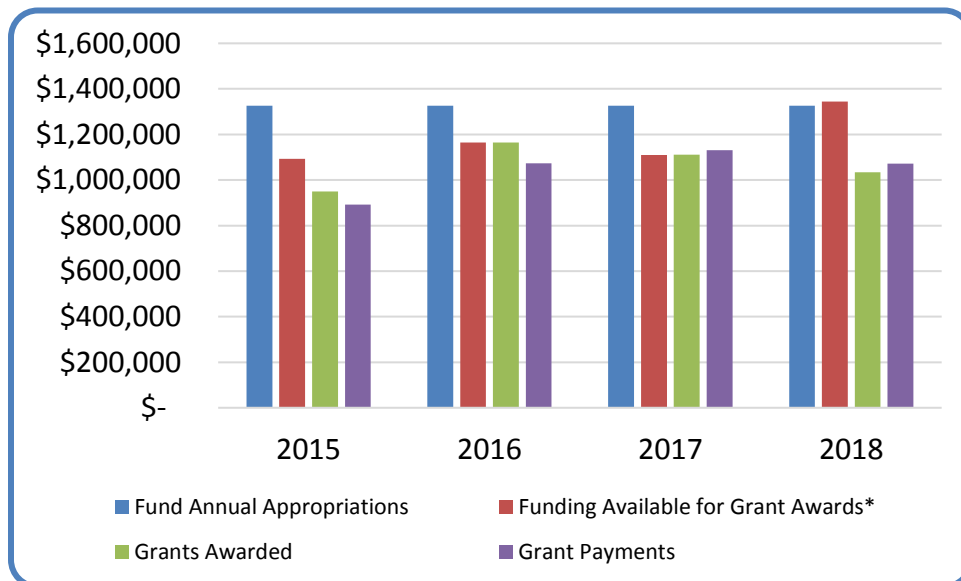
Activities and Balances of the Board's Investments

Fiscal Year	Beginning Balance July 1	Investment Income (Loss)	Grants and Expenses	Ending Balance June 30	Annual Investment Return
2015	35,424,059	1,562,647	(1,140,971)	35,845,735	4.41%
2016	35,845,735	645,545	(1,264,862)	35,226,418	1.80%
2017	35,226,418	4,171,375	(1,528,908)	37,868,885	11.84%
2018	37,868,885	2,725,877	(1,278,598)	39,316,164	7.20%

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; the Code of Virginia (Code) 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 to determine the amount available for actual grant awards. The Board is not required to expend the maximum allowed in a calendar year. Funding up to the allowable six percent threshold that is not expended in a given calendar year may be expended in any future calendar year. Further, the Appropriation Act sets out the annual amount authorized for disbursement; this amount was set at \$1,326,344 for fiscal years 2017 and 2018. The chart below displays the amount of funding available to the Board for grant issuance, compared to grants awarded, 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 six percent of the moving market value is not exceeded.

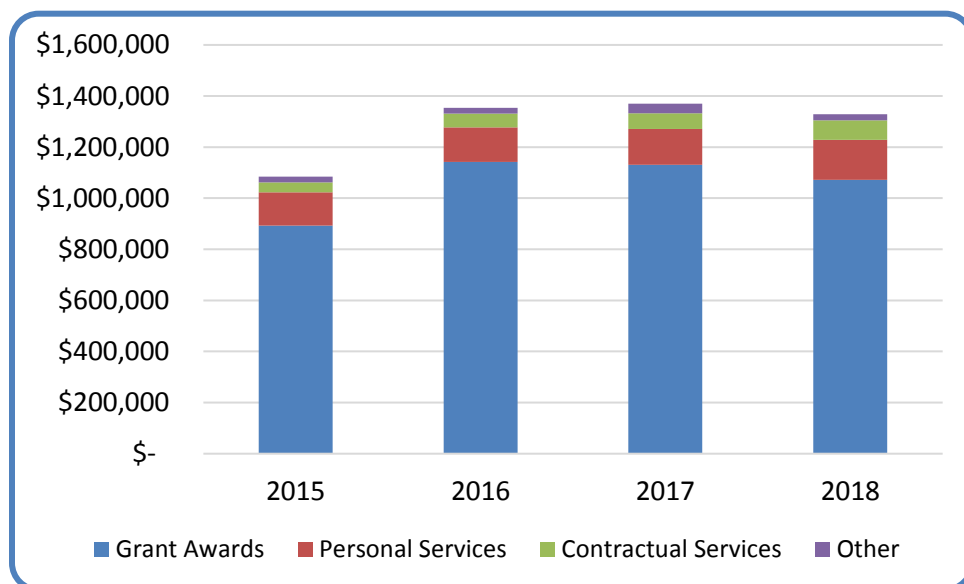
Collaboration with Virginia Biosciences Health Research Corporation

During 2017, the Board announced its support of a collaborative project with the Virginia Biosciences Health Research Corporation (Corporation). The Corporation was established by the General Assembly and is funded by the Commonwealth's general fund and seven Virginia public research universities. The mission of the Corporation is to advance Virginia's economic development by connecting research universities and the biosciences industry thereby, attracting research and commercialization capital. Chapter 836, of the 2017 Virginia Acts of Assembly, allows up to \$2.5 million of funds managed by the Board to be directed toward research projects approved by both the Corporation and the Board. The Board will distribute a total of \$200,000 towards a grant established in 2017 to fund a research project at Eastern Virginia Medical School and George Mason University. As of June 30, 2018, the Board has distributed a total of \$175,000 of this grant.

Expenses

Outside of grant awards, which accounts for 81 percent of the Board's use of available funding, other significant expenses relate to personal and contractual services. Personal services consists of compensation received by the Board Administrator, as set by the Board, for coordination of the grant program on a daily basis. Contractual services primarily relate to payments made to scientific reviewers for grant review and monitoring of grantees' processes. As the chart below depicts, the percent of expense by type remained consistent between fiscal years 2016 to 2018.

Analysis of Expenses by Type



Source: Commonwealth's accounting and financial reporting system



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Auditor of Public Accounts

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May 31, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, 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, 2016, through June 30, 2018. 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 with regard to the financial records and operations of the Board were to evaluate the accuracy of transactions as recorded 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, as they relate to the audit objectives, 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 revenues and expenses
Administrative expenses, including payroll
Contractual services
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 as they pertain to our audit objectives.

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, financial transactions recorded and reported in the Commonwealth's accounting and financial reporting system relating to the audit objectives.

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 22, 2019.

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

LDJ/clj

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