



VIRGINIA FOUNDATION FOR HEALTHY YOUTH

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2013

AUDIT SUMMARY

Our audit of the Virginia Foundation for Healthy Youth (Foundation) for the year ended June 30, 2013, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the Foundation's financial 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.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
FOUNDATION HIGHLIGHTS	1-3
INDEPENDENT AUDITOR'S REPORT	4-5
FOUNDATION OFFICIALS	6

FOUNDATION HIGHLIGHTS

Foundation Overview

The Virginia Foundation for Healthy Youth (Foundation) annually receives 8.5 percent of the Commonwealth of Virginia's (Commonwealth) portion of funds from the Master Settlement Agreement (MSA) with tobacco manufacturers. Prior to fiscal 2011, the Foundation received ten percent of the Commonwealth's portion of the MSA. A Board of Trustees (Board), comprised of 23 members, governs and administers the Foundation. The Board establishes the Foundation's budget and criteria and procedures for distributing money from the Virginia Tobacco Settlement Fund. The Foundation uses its funding to finance educational and awareness programs on the health effects of tobacco use on youth and childhood obesity. The Foundation also uses funds to conduct research related to the prevention of 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. Additionally, the Foundation funds a statewide marketing campaign focused on reducing 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 11 additional staff members. The staff includes four regional grant program administrators. These administrators are responsible for managing the tobacco and obesity prevention program grants issued throughout the Commonwealth.

Marketing Campaign

The Foundation manages 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 and 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, 2012, through June 30, 2013.

<u>Contract</u>	<u>Amount</u>
Barber Martin Advertising (Y - Campaign)	\$3,500,000
Rescue Social Change Group (Youth Advocacy Initiative)	1,400,000
Online/Interactive Activities (Evaluation and Research)	<u>150,000</u>
Market Decisions, Inc. (Evaluation and Research)	<u>\$5,050,000</u>
Total in Marketing Contracts	

Source: The financial information presented in this table came directly from the Foundation's financial system which reconciles to the Commonwealth Accounting and Reporting System.

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, Inc. evaluates the effectiveness of the Y-Campaign by conducting tracking studies twice a year and preparing reports for each study.

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 and obesity prevention programs. Tobacco programs include prevention education, tobacco cessation, early tobacco intervention and reduction, advocacy, youth empowerment, and social skills building. The goals of obesity programs are to improve access to healthy foods and opportunities for physical activity to prevent and reduce childhood obesity. In fiscal year 2013 the Foundation awarded approximately \$7.7 million dollars on 55 three-year tobacco prevention grants and approximately \$1.2 million on 18 two-year obesity prevention grants. The Foundation monitors and administers these grants to ensure recipients meet the program objectives.

Research Grants

The Foundation awarded six three-year research grants in 2013. The grants assist in the 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. Four departments at Virginia Commonwealth University received four grants totaling \$1.8 million and George Mason University received two grants totaling \$498 thousand for the three-year period.

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 \$10.9 million, of which it needs \$748 thousand to pay grant and contract commitments.

Tobacco manufacturers are withholding in escrow 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. However, during the 2013 fiscal year the Foundation received \$4.08 million dollars from the escrow account, which as required by the Commonwealth's 2013 budget, the Foundation transferred to the Commonwealth's General Fund. The receipt and subsequent transfer out of these escrow funds caused most of the actual to budget variance in the Foundation's revenues and expenditures.

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 and the budget to actual expenditures during the spring meeting.

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 below is a complete Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budgetary Comparison. This schedule reflects actual revenues and expenditures compared to Board approved budgets for fiscal year 2013.

VIRGINIA FOUNDATION FOR HEALTHY YOUTH
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGETARY COMPARISON - SPECIAL REVENUE FUND
 For the Fiscal Year Ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Variance over (under)</u>
Revenues:			
Master Settlement payments	\$10,221,777	\$14,495,615	\$4,273,838
Grants and other revenues	<u>-</u>	<u>34,396</u>	<u>34,396</u>
Total revenues:	<u>10,221,777</u>	<u>14,530,011</u>	<u>4,308,234</u>
Expenditures:			
Program	3,256,000	3,012,177	(243,823)
Marketing	2,915,000	2,817,678	(97,322)
Research and evaluation	1,100,000	1,221,592	121,592
Administration	1,000,000	921,865	(78,135)
Obesity	1,000,000	867,514	(132,486)
Inter-agency	65,000	65,000	-
Grant programs	-	10,000	10,000
State General Fund transfers out	<u>75,000</u>	<u>4,008,972</u>	<u>3,933,972</u>
Total expenditures:	<u>9,411,000</u>	<u>12,924,798</u>	<u>3,513,798</u>
Revenues over (under) expenditures	<u>\$ 810,777</u>	<u>1,605,213</u>	<u>\$ 794,436</u>
Fund Balance, July 1, 2012		<u>8,362,125</u>	
Fund Balances, June 30, 2013		<u>\$ 9,967,338</u>	

Source: The Foundation's financial system, which reconciles to the Commonwealth Accounting and Reporting System



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 10, 2013

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, 2013. 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 and the Foundation's financial 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
- 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 and the Foundation's financial 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 financial 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 December 17, 2013.

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

AUDITOR OF PUBLIC ACCOUNTS

GDS/clj

VIRGINIA FOUNDATION FOR HEALTHY YOUTH

Marty Kilgore, Executive Director

BOARD OF TRUSTEES

As of June 30, 2013

Robert C. Gunther, M.D., Chairman

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

Richard Baxter Gilliam, Jr.

Robert Leek

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

January Britt

India Sisler, M.D.

Sarah T. Melton, Pharm.D.

Christopher S. Nicholson, M.D.

Senator Ralph Northam, M.D.

Steven G. Reardon

Cynthia Romero, M.D.

Davis C. Rennolds

Claudia Tellez

Don Gehring

Youth Members

Jeffrey Logan Holland

Corey Howell