



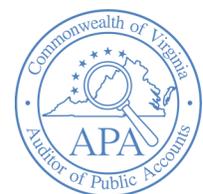
COMMONWEALTH HEALTH RESEARCH BOARD

REPORT ON AUDIT FOR THE PERIOD JULY 1, 2012 THROUGH JANUARY 31, 2016

Auditor of Public Accounts
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AUDIT SUMMARY

Our audit of the Commonwealth Health Research Board for the period July 1, 2012, through January 31, 2016, 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 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 one-year grants, the Board disburses 75 percent of grant funding upon the signing of the grant agreement, while two-year grant disbursements occur in July of the initial grant year. For both one and two-year grants, the grantee receives the remaining 25 percent after approval or satisfactory review of final scientific research 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 schedule on the next page, the Fund experienced an 11.47 percent gain on investments in fiscal year 2013, 15.44 percent gain in fiscal year 2014, and a 4.41 percent gain in fiscal year 2015.

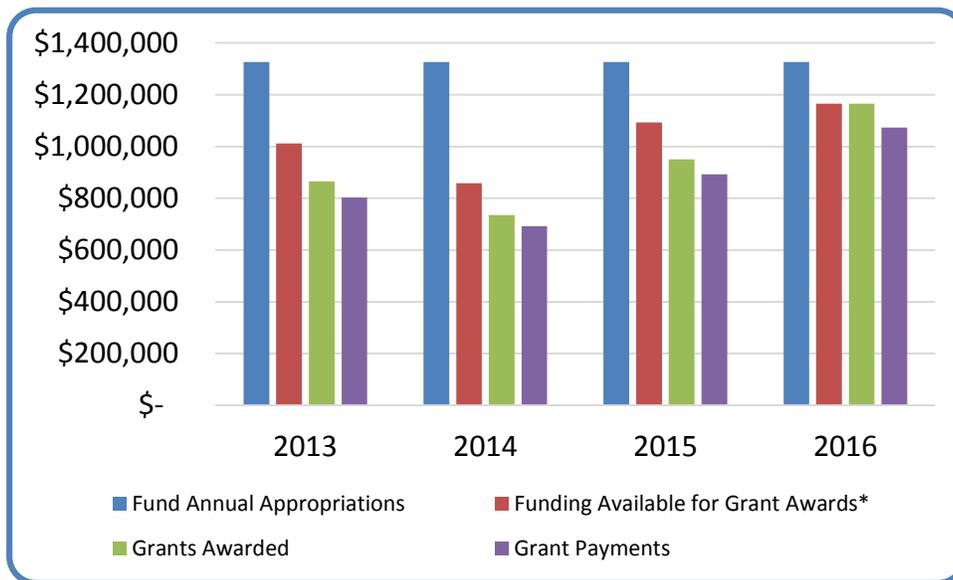
Activities and Balances of the Board's Investments

| Fiscal Year | Beginning Balance July 1 | Investment Income (Loss) | Grants and Expenses | Ending Balance June 30 | Annual Investment Return |
|-------------|-----------------------------|--------------------------------|---------------------------|------------------------------|--------------------------------|
| 2011 | \$25,762,032 | \$4,804,536 | \$ (758,151) | \$29,808,417 | 18.65% |
| 2012 | 29,808,418 | 375,883 | (1,077,956) | 29,106,345 | 1.26% |
| 2013 | 29,106,345 | 3,338,284 | (1,034,721) | 31,409,908 | 11.47% |
| 2014 | 31,409,908 | 4,849,104 | (834,953) | 35,424,059 | 15.44% |
| 2015 | 35,424,059 | 1,562,647 | (1,140,971) | 35,845,735 | 4.41% |

Source: Commonwealth Health Research Board, Commonwealth Accounting and Reporting System, and Virginia Retirement 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. Further, the Appropriation Act sets out the annual amount authorized for disbursement; this amount was set at \$1,326,344 for fiscal years 2013 through 2016. The graph 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



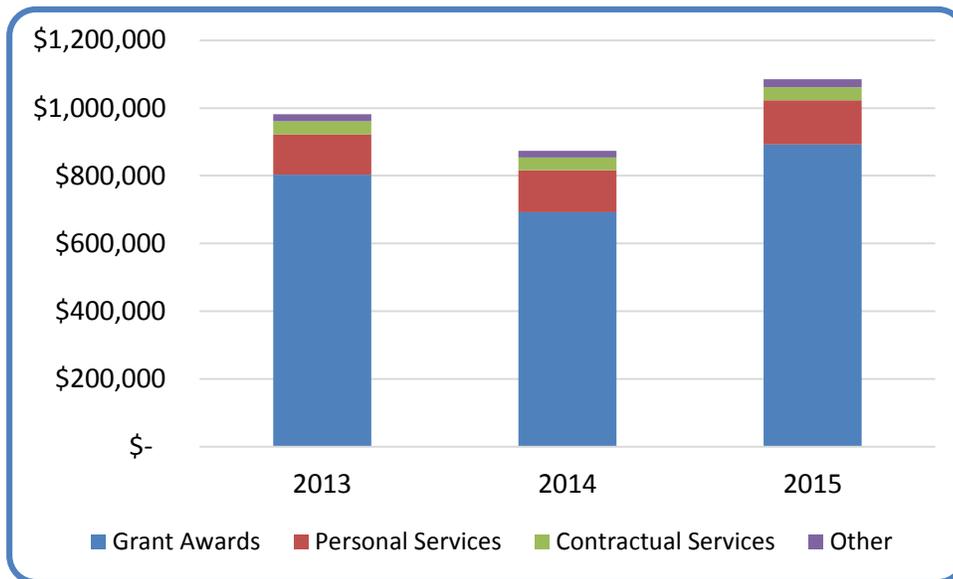
Source: Commonwealth Health Research Board, Commonwealth Accounting and Reporting System

*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.

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 2013 to 2015.

Analysis of Expenses by Type





Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

July 5, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.
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, 2012, through January 31, 2016. 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, 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 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, regulations, contracts, and grant agreements.

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 revenues and expenses
Administrative expenses, including payroll
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. 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. We confirmed investment balances with parties outside of the board.

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 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 July 19, 2016.

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

COMMONWEALTH HEALTH RESEARCH BOARD

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