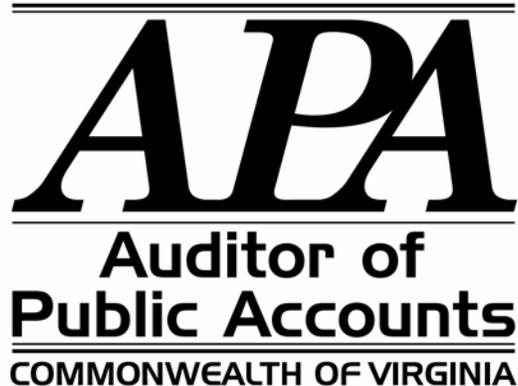


COMMONWEALTH HEALTH RESEARCH BOARD

REPORT ON AUDIT

FOR THE PERIOD

JULY 1, 2002 THROUGH JUNE 30, 2004



AUDIT SUMMARY

Our audit of the Commonwealth Health Research Board for the period July 1, 2002 through June 30, 2004, found:

- revenues and expenses are properly reported in the Commonwealth Accounting and Reporting System;
- compliance with significant laws and regulations; and
- management has established and maintained internal controls over the revenues and expenditures tested.

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AGENCY HIGHLIGHTS

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 Department of Accounts provides administrative and accounting support and the Virginia Retirement System invests and manages the funds.

When Blue Cross and Blue Shield of Virginia converted from a non-profit mutual insurance company to a for-profit corporation, the Commonwealth received 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.

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 increase 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.

FINANCIAL OPERATIONS

The invested balance of the Commonwealth Health Research Fund at June 30, 2004, was approximately \$27 million. Since the Board's inception, they have awarded 67 grants totaling \$4.2 million.

For fiscal 2004, the Board approved 14 grants totaling \$887,914 to researchers from Eastern Virginia Medical School, James Madison University, Sweet Briar College, the College of William and Mary, Lynchburg College, George Mason University, the Gwaltney School, Shenandoah University, the University of Virginia, Virginia Commonwealth University, and Virginia Polytechnic Institute and State University. These institutions are providing \$376,735 in matching funds in support of these grants. For fiscal 2003, the Board approved eight grants totaling \$509,806 with matching funds of \$199,999. These grants include research into a variety of health and medical related areas.

The Board made actual grant payments totaling \$587,472 and \$678,284 in fiscal 2004 and 2003, respectively, representing both initial and final award payments. In fiscal 2004, the Board had personnel-related expenses of \$44,614 and other administrative expenses totaling \$39,541, which included payments to medical consultants to assist reviewing the grant applications, printing costs for brochures, telephones, and board meeting expenses. These expenses are consistent with amounts in prior years.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 5, 2005

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

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have completed an audit of the **Commonwealth Health Research Board** for the period July 1, 2002 through June 30, 2004. We conducted our overall review in accordance with the standards for performance audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

Objectives

Our objectives for the audit of the Board were to determine:

- that revenues and expenditures are properly reported in the Commonwealth Accounting and Reporting System;
- compliance with significant laws and regulations; and
- that management has established and maintained internal controls over the revenues, expenditures tested.

Audit Scope and Methodology

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 following significant cycles, classes of transactions, and account balances:

Revenues
Expenses, including grant award disbursements

We gained an understanding of the overall internal controls, automated and manual, sufficient to plan the audit. We considered 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.

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, regulations, contracts, and grant agreements. 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 revenues and expenses recorded in the Commonwealth Accounting and Reporting System. We noted no matters involving internal control and its operation that we considered necessary to bring to management's attention.

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.

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

Exit Conference

We discussed this letter with management at an exit conference held on May 19, 2005.

AUDITOR OF PUBLIC ACCOUNTS

KKH/kva

COMMONWEALTH HEALTH RESEARCH BOARD

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