

**CALIFORNIA HEALTH FACILITIES
FINANCING AUTHORITY
CHILDREN'S HOSPITAL PROGRAM**

PERFORMANCE AUDIT

JUNE 30, 2010

California Health Facilities Financing Authority
Children's Hospital Program

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TRANSMITTAL REPORT

Members of the Board
California Health Facilities Financing Authority
Children's Hospital Program

The following is the final report on the performance audit we conducted of the Children's Hospital Program of the California Health Facilities Financing Authority (the Authority or CHFFA) as of and for the year ended June 30, 2010. The scope of the audit focused on assessing the Authority's internal controls surrounding the Children's Hospital Program. Our report provides recommendations for improving efficiencies and effectiveness.

We provided a draft version of the report for review and comment by the Authority. Their responses are included in this report.



Sacramento, California
June 5, 2012

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT

June 30, 2010

AUDIT SCOPE AND OBJECTIVES

In August 2010, the Authority requested a performance audit of the Children's Hospital Program over the internal controls in relation to the Program. The purpose of the performance audit is to provide the Authority recommendations in order to improve the operating effectiveness and efficiencies of the Program.

Our approach for conducting the performance audit involved interviewing different levels of staff, reviewing policies and procedures surrounding the application process through bond issuance and reviewing all of the bond files which closed during the period July 1, 2009 through June 30, 2010.

GENERAL BACKGROUND

The Authority

The California Health Facilities Financing Authority (CHFFA) was created in 1979 pursuant to the CHFFA Act (codified in Government Code sections 15430-15462.5). CHFFA is a public instrumentality of the State of California, authorized and empowered by the provisions of the CHFFA Act for the purpose of providing financial assistance to eligible and creditworthy non-profit and public health facilities through loans, grants and tax-exempt financings. The Authority was created to be the State of California's vehicle for providing financial assistance to public and non-profit health care providers in California through loans funded by the issuance of tax-exempt bonds, low-cost loans, and direct grant programs to promote important California health access, healthcare improvement and cost containment objectives. The diverse nature of the facilities funded by the Authority reflects the changing health care needs of California. From rural community-based organizations to large multi-hospital systems, the Authority has financed a wide range of providers and programs throughout California.

The Program

The Children's Hospital Bond Act of 2004 (2004 Act) created the Children's Hospital Program (the Program) and also provided for authorization of \$750 million in general obligation bonds to be sold by the State of California to fund the Program. In October 2008, an additional funding of the Program for \$980 million (2008 Act) was approved by the California voters. The Authority administers the Program and is authorized to award grants under both the 2004 Act and the 2008 Act.

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PERFORMANCE AUDIT - CONTINUED

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ELIGIBILITY REQUIREMENTS

The Program was created to improve health and welfare of critically ill children in California by providing funding for capital improvement projects for qualifying children's hospitals.

The regulations specify that eligible projects are those of any qualifying children's hospitals for costs incurred for the construction, expansion, improvements, furnishings, equipment, and financing of a children's hospital.

The following 13 hospitals qualify as children's hospitals under the Program regulations, including five UC hospitals and 8 private nonprofit hospitals (other hospitals):

1. University of California, Davis Children's Hospital
2. University Children's Hospital at University of California, Irvine
3. Mattel Children's Hospital at University of California, Los Angeles
4. University of California, San Diego Children's Hospital
5. University of California, San Francisco Children's Hospital
6. Children's Hospital of Los Angeles
7. Children's Hospital Central California (Madera)
8. Children's Hospital and Research Center Oakland
9. Children's Hospital of Orange County
10. Loma Linda University Children's Hospital
11. Lucile Packard Children's Hospital at Stanford
12. Miller Children's Hospital (Long Beach)
13. Rady Children's Hospital San Diego

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The regulations specify the maximum award amount available to each qualifying hospital with 20% of the funds for the UC hospitals and 80% to the others. A detail analysis of the maximum award per qualifying hospital is as follows:

| <u>Eligible Children's Hospitals</u> | <u>Maximum Award Per 2004 Act</u> | <u>Maximum Award Per 2008 Act</u> | <u>Maximum Award under the Program</u> | <u>Percentage of total</u> |
|---|---|---|--|--------------------------------|
| University of California, Davis Children's Hospital | \$ 30,000,000 | \$ 39,200,000 | \$ 69,200,000 | 4% |
| University Children's Hospital at University of California, Irvine | 30,000,000 | 39,200,000 | 69,200,000 | 4% |
| Mattel Children's Hospital at University of California, Los Angeles | 30,000,000 | 39,200,000 | 69,200,000 | 4% |
| University of California, San Diego Children's Hospital | 30,000,000 | 39,200,000 | 69,200,000 | 4% |
| University of California, San Francisco Children's Hospital | 30,000,000 | 39,200,000 | 69,200,000 | 4% |
| Sub total UC Children Hospitals | <u>150,000,000</u> | <u>196,000,000</u> | <u>346,000,000</u> | <u>20%</u> |
| Children's Hospital of Los Angeles | 75,000,000 | 98,000,000 | 173,000,000 | 10% |
| Children's Hospital Central California (Madera) | 75,000,000 | 98,000,000 | 173,000,000 | 10% |
| Children's Hospital and Research Center Oakland | 75,000,000 | 98,000,000 | 173,000,000 | 10% |
| Children's Hospital of Orange County | 75,000,000 | 98,000,000 | 173,000,000 | 10% |
| Loma Linda University Children's Hospital | 75,000,000 | 98,000,000 | 173,000,000 | 10% |
| Lucile Packard Children's Hospital at Stanford | 75,000,000 | 98,000,000 | 173,000,000 | 10% |
| Miller Children's Hospital (Long Beach) | 75,000,000 | 98,000,000 | 173,000,000 | 10% |
| Rady Children's Hospital San Diego | 75,000,000 | 98,000,000 | 173,000,000 | 10% |
| Sub total Other Children Hospitals | <u>600,000,000</u> | <u>784,000,000</u> | <u>1,384,000,000</u> | <u>80%</u> |
| | <u>\$ 750,000,000</u> | <u>\$ 980,000,000</u> | <u>\$ 1,730,000,000</u> | <u>100%</u> |

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HISTORICAL SUMMARY OF ACTIVITY

Summary of Awards Committed

As of June 30, 2010, the Authority issued cumulative awards of \$860.6 million representing about 50% of the overall funding allowed under the Program (79% of the 2004 Act funds and 27% of the 2008 Act funds). A summary analysis of the awards committed is as follows:

| | Awards Committed under 2004 Act | Awards Committed under 2008 Act | Total Program Awards | Percentage of total |
|---------------|--|--|---------------------------------|--------------------------------|
| Committed | \$ 594,285,894 | \$ 266,342,351 | \$ 860,628,245 | 50% |
| Not Committed | 155,714,106 | 713,657,649 | 869,371,755 | 50% |
| | <u>\$ 750,000,000</u> | <u>\$ 980,000,000</u> | <u>\$ 1,730,000,000</u> | <u>100%</u> |

Summary of Disbursements on Awards Committed

As of June 30, 2010, the Authority made cumulative disbursements of \$652.7 million representing about 76% of the total committed awards amounts (90% of the 2004 Act awards and 45% of the 2008 Act awards). A summary analysis of the disbursements is as follows:

| | Awards Committed under 2004 Act | Awards Committed under 2008 Act | Total Program Awards | Percentage of total |
|-----------------|--|--|---------------------------------|--------------------------------|
| Disbursed | \$ 532,872,844 | \$ 119,894,503 | \$ 652,767,347 | 76% |
| Not disbursed | 61,413,050 | 146,447,848 | 207,860,898 | 24% |
| Total Committed | <u>\$ 594,285,894</u> | <u>\$ 266,342,351</u> | <u>\$ 860,628,245</u> | <u>100%</u> |
| % Disbursed | <u>90%</u> | <u>45%</u> | <u>76%</u> | |

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Detailed Analysis of Awards Committed

A detailed analysis of the awards committed show some disparities between the different entities as some organizations have almost used up the maximum allowed funds while others did not participate in the Program or are not using the funds available to them within a time period that is comparable to the other organizations. As an example, while 20% of the funds were set aside for the UC children hospitals, they only represent 12% of the commitments while the other 8 children hospitals have 88% of the commitments. Also, since the inception of the Program, all qualifying children's hospitals benefited from the Program with the exception of University of California, San Francisco Children's Hospital.

| <u>Eligible Children's Hospitals</u> | <u>Awards Committed under 2004 Act</u> | <u>Awards Committed under 2008 Act</u> | <u>Total Program Awards</u> | <u>Percentage of total</u> |
|---|--|--|---------------------------------|--------------------------------|
| University of California, Davis Children's Hospital | \$ 8,345,823 | \$ - | \$ 8,345,823 | 1% |
| University Children's Hospital at University of California, Irvine | 29,827,500 | - | 29,827,500 | 3% |
| Mattel Children's Hospital at University of California, Los Angeles | 29,827,500 | 24,856,250 | 54,683,750 | 6% |
| University of California, San Diego Children's Hospital | 11,258,181 | - | 11,258,181 | 1% |
| University of California, San Francisco Children's Hospital | - | - | - | 0% |
| Sub total UC Children Hospitals | <u>79,259,004</u> | <u>24,856,250</u> | <u>104,115,254</u> | <u>12%</u> |
| Children's Hospital of Los Angeles | 73,944,500 | 97,436,500 | 171,381,000 | 20% |
| Children's Hospital Central California (Madera) | 73,944,500 | 9,451,766 | 83,396,266 | 10% |
| Children's Hospital and Research Center Oakland | 72,599,311 | - | 72,599,311 | 8% |
| Children's Hospital of Orange County | 77,859,765 | 97,436,500 | 175,296,265 | 20% |
| Loma Linda University Children's Hospital | 6,103,495 | - | 6,103,495 | 1% |
| Lucile Packard Children's Hospital at Stanford | 73,944,500 | - | 73,944,500 | 9% |
| Miller Children's Hospital (Long Beach) | 73,944,500 | 21,810,420 | 95,754,920 | 11% |
| Rady Children's Hospital San Diego | 62,686,319 | 15,350,915 | 78,037,234 | 9% |
| Sub total Other Children Hospitals | <u>515,026,890</u> | <u>241,486,101</u> | <u>756,512,991</u> | <u>88%</u> |
| | <u>\$ 594,285,894</u> | <u>\$ 266,342,351</u> | <u>\$ 860,628,245</u> | <u>100%</u> |

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PERFORMANCE AUDIT - CONTINUED

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Detailed Analysis of Disbursements

A detailed analysis of the disbursements on the awards committed is presented below. The disbursements are consistent with the commitments. There is a higher percentage of disbursements showing that once the funds are committed, the disbursements occur within a reasonable time frame.

| <u>Eligible Children's Hospitals</u> | <u>Awards Disbursed under 2004 Act</u> | <u>Awards Disbursed under 2008 Act</u> | <u>Total Program Awards Disbursements</u> | <u>Percentage of total</u> |
|---|--|--|---|--------------------------------|
| University of California, Davis Children's Hospital | \$ 8,345,823 | \$ - | \$ 8,345,823 | 1% |
| University Children's Hospital at University of California, Irvine | 29,827,500 | - | 29,827,500 | 5% |
| Mattel Children's Hospital at University of California, Los Angeles | 29,827,500 | - | 29,827,500 | 5% |
| University of California, San Diego Children's Hospital | 11,258,181 | - | 11,258,181 | 2% |
| University of California, San Francisco Children's Hospital | - | - | - | 0% |
| Sub total UC Children Hospitals | <u>79,259,004</u> | <u>-</u> | <u>79,259,004</u> | <u>12%</u> |
| Children's Hospital of Los Angeles | 72,188,287 | 90,627,652 | 162,815,939 | 25% |
| Children's Hospital Central California (Madera) | 49,207,139 | - | 49,207,139 | 8% |
| Children's Hospital and Research Center Oakland | 50,611,625 | - | 50,611,625 | 8% |
| Children's Hospital of Orange County | 65,253,174 | 29,266,851 | 94,520,025 | 14% |
| Loma Linda University Children's Hospital | 6,092,437 | - | 6,092,437 | 1% |
| Lucile Packard Children's Hospital at Stanford | 73,630,359 | - | 73,630,359 | 11% |
| Miller Children's Hospital (Long Beach) | 73,944,500 | - | 73,944,500 | 11% |
| Rady Children's Hospital San Diego | 62,686,319 | - | 62,686,319 | 10% |
| Sub total Other Children Hospitals | <u>453,613,840</u> | <u>119,894,503</u> | <u>573,508,343</u> | <u>88%</u> |
| | <u>\$ 532,872,844</u> | <u>\$ 119,894,503</u> | <u>\$ 652,767,347</u> | <u>100%</u> |

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PERFORMANCE AUDIT - CONTINUED

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MEASUREMENT

Goals and Monitoring

The goals of the Program are to provide grant funds to specified Children's Hospitals to expand and improve the quality of healthcare available to children in California.

Inputs

The input is the grant funds made available through the issuance of general obligation bonds by the State of California. The Authority administers the Program and awards grants to the qualifying hospitals. Neither the Authority nor the grantees have any obligation to repay the funds as the financing is secured by the full faith and credit of the State of California.

Outputs

The outputs are the expansion of facilities and upgraded equipment for children's hospitals in California.

Outcomes

The outcomes are the increased quality of care and availability of healthcare to children in the State of California.

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PERFORMANCE AUDIT - CONTINUED

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AUDIT STANDARDS AND METHODOLOGY

Audit Standards

We conducted the audit in accordance with generally accepted government auditing standards promulgated by the Comptroller General of the United States of America. These standards pertain to the auditor's professional qualifications, the quality of the audit effort and the characteristics of professional and meaningful audit reports. The standards ensure the independence and objectivity of the audit team, the analysis and the resulting findings and recommendations presented in the report. We limited our procedures to those specified in the scope of this performance audit.

Methodology

To gain an understanding of the program requirements, we performed the following procedures:

- We obtained and reviewed the regulations which created the Authority and the Bond Program.
- We interviewed management and the Authority staff.
- We reviewed the relevant documents such as the bond application and instructions.

To gain an understanding of the process for receiving and processing applications to ensure they are awarded in accordance with the criteria defined in the regulations we performed the following:

- We reviewed the requirements and eligibility of the Program.
- We interviewed management and the Authority staff to gain an understanding of the processes and procedures for reviewing applications for eligibility and approval.
- We reviewed the relevant documents such as the checklists used by the Authority to process the applications and document the approval process in order to gain an understanding of the level of review performed by the Authority.

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To ensure the funds were being used in accordance with the program requirements we performed the following procedures:

- We selected a sample of files from the grants approved during the period July 1, 2009 through June 30, 2010. The sample consisted of 7 files. We performed detailed procedures on the 7 files for compliance with the policies and procedures of the CHFFA.
- We reviewed the availability of the applications and the process an applicant follows to submit the application to CHFFA.
- We reviewed CHFFA's due diligence process and procedures.
- We reviewed the grant documents to ensure they contained information required by the Program regulations.
- We reviewed the approval process and the submission process to the board for approval.
- We reviewed the ongoing monitoring requirements and process in place by CHFFA.

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AUDIT RESULTS

- We conducted interviews of the staff working on the Program to gain an understanding of the process and procedures. During these interviews we noted that there are no written procedures that explain the procedures for the Program. However, there is a checklist which documents the steps taken to approve the grant which is based upon the very detailed regulations.
- Our review of the availability of the applications and the process an applicant follows to submit the application to CHFFA resulted in the following observations:
 - The applications and the application process are available on the internet and can be downloaded and printed. The Authority accepts paper applications. Two copies of the application are required to be submitted. This process is helpful as the application can be reviewed for different aspects and is intended to increase the efficiency of the process.
 - The applications solicit the basic information needed and also provide a detailed listing of exhibits to be attached to the application, such items included in the listing of exhibits are as follows:
 - Third party feasibility study or other documentation to demonstrate the Project will generate sufficient revenues to provide on-going support for new or expanded services and/or research programs.
 - Estimated sources and uses of the grant proceeds, including all sources to be used to fund the project.
 - California Environment Quality Act (CEQA) Review.
- Our review of CHFFA's due diligence process and procedures resulted in the following observations:
 - The Authority uses a checklist in order to document the processes and procedures of the application review.
 - The checklists are very detailed and provide a manner to organize the significant number of documents and calculations performed.

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- The Authority is in compliance with the regulations indicating that the application is to be processed for approval within 60 days of receipt.
- During our review of the grant agreements to ensure they contained required information, our results were that the files are complete and contain the appropriate information.
- Our review of the approval process and the submission process to the board for approval resulted in the following observations:
 - Prior to the package being sent to the board for approval, there are several levels of review to ensure the application includes all of the supporting documentation.
- During our review of the resolutions by the Authority's board to ensure that the project and grant was approved we noted the following:
 - A detailed summary of the project and results of the due diligence were provided to the board for review.
 - The resolution from the board approving the grant is maintained in the file and also in the board minutes online.
- The grants approved during the period are not yet completed and therefore did not contain the information as to the documentation of completion as required upon completion of the project.
- The Authority has documented and implemented a Bond Accountability Plan in accordance with Executive Order S-02-07 for the Children's Hospital Program of 2008. The Authority's compliance with the Executive Order was voluntary.

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PERFORMANCE AUDIT - CONTINUED

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RECOMMENDATIONS

Procedures and Documentation

- The Authority should develop a process for updating the checklists so that they are always the most current listing of information to analyze and include in the file. By reviewing the checklists on an annual basis and updating them as needed, it would help to ensure that as the processes and procedures are updated, there is a mechanism to ensure compliance.
- A process for following up on the completion of the project was not noted. To ensure timely completion of the approved projects and proper use of proceeds the Authority should implement written procedures for obtaining the close out documentation of the project.

Measurement

- There were no specific measurement tools and mechanisms in place to gather data and assess the impacts of the Program on access to pediatric care and/or health outcomes.

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PERFORMANCE AUDIT - CONTINUED

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MANAGEMENT RESPONSE TO THE AUDIT

Recommendations:

- 1) Develop a process for updating the checklists as needed that includes an annual review.

Response: CHFFA management agrees with this recommendation. It is unlikely that checklists will need to be updated annually since they are tied to the regulations which rarely change. However, the checklists also serve as written procedures since they are a step by step guide for analysts, and process updates may be appropriate more often, so an annual review is warranted and will be established. Some checklists have been updated since the finding.

- 2) Implement written procedures for obtaining close out documentation.

Response: In the fiscal year ended June 30, 2010, no such procedures had been implemented, but CHFFA has done so since.

- 3) Develop tools and mechanisms to gather data and assess the impacts of the Program on access to pediatric care and/or health outcomes.

Response: The "Completion Certificate & Final Report" form that is completed by the hospitals has been modified to collect descriptions, stories and/or data that demonstrate how well the project contributed to: (a) the expansion or improvement of health care access by children eligible for governmental health insurance programs and indigent, underserved, and uninsured children; and (b) the improvement of child health care or improvement of pediatric patient outcomes.