

CALIFORNIA HEALTH FACILITIES  
FINANCING AUTHORITY

**HEALTHCARE EXPANSION LOAN PROGRAM II**

PERFORMANCE AUDIT

JUNE 30, 2010

California Health Facilities Financing Authority

Healthcare Expansion Loan Program II

PERFORMANCE AUDIT

TABLE OF CONTENTS

	PAGE
TRANSMITTAL REPORT	3
PERFORMANCE AUDIT	
AUDIT SCOPE AND OBJECTIVES	4
GENERAL BACKGROUND AND OVERVIEW	4
AUDIT RESULTS	7
FINDINGS AND RECOMMENDATIONS	10
RESPONSE TO THE AUDIT	11

## TRANSMITTAL REPORT

Members of the Board  
California Health Facilities Financing Authority  
Healthcare Expansion Loan Program II

The following is the final report on the performance audit we conducted of the Healthcare Expansion Loan Program II (HELP II) 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 HELP II 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

Healthcare Expansion Loan Program II

PERFORMANCE AUDIT

June 30, 2010

**AUDIT SCOPE AND OBJECTIVES**

In August 2010, the Authority requested a performance audit of the HELP II program over the internal controls in relation to the program. The purpose of the performance audit is to provide the Authority with 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 loan issuance and reviewing all of the loan files which closed during the period July 1, 2009 through June 30, 2010.

**GENERAL BACKGROUND**

The Authority

The Authority was established in 1979 and operates pursuant to the California Health Facilities Financing Authority Act codified in the California Government Code Sections 15430-15462.5. 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.

In 1995 the Authority launched the HELP II program to provide non-profit small and rural facilities with access to low cost financing of capital projects, which are otherwise challenging for them to obtain. In 2007, the Program was modified to increase the maximum loan amount from \$500,000 to \$750,000 and to exempt small rural facilities and district hospitals from the requirement to have gross revenue of \$30 million or less to qualify for the loan.

The Program

The HELP II Program (the Program) provides a borrower with access to low cost financing through the issuance of low cost and low interest rate loans. Proceeds from the loan may be used by eligible borrowers to purchase, construct, renovate or remodel real property, and refinance

California Health Facilities Financing Authority

Healthcare Expansion Loan Program II

PERFORMANCE AUDIT - CONTINUED

June 30, 2010

existing debt. The proceeds may not be used as working capital or to reimburse for costs of prior projects.

**THE ELIGIBILITY REQUIREMENTS**

The programmatic guidelines specify that in order for an institution to be eligible for the Program it must be designated as a non-profit and qualify as a health facility under section 15432(d) of the California Government Code which defines the health facilities eligible for the Program. Examples of qualifying health facilities include AIDS clinics, alcoholism recovery facilities, blood banks, group homes, rehabilitation facilities to name a few.

In addition, the borrower must contribute 5% toward project costs either in the form of cash or documented expenditures subject to approval by CHFFA.

**HISTORICAL SUMMARY OF ACTIVITY**

As of June 30, 2010 loans in the amount of \$36,423,237 remain outstanding. During the fiscal year ended June 30, 2010, the Authority awarded new loans amounting to \$3,254,500 under the program.

**MEASUREMENT**

Goals and Monitoring

The goals of the Program are to provide low cost financing to non-profit small and rural healthcare providers in California through loans to expand the availability and improve the quality of healthcare available in California.

Inputs

The inputs used to measure are the amounts of loans issued and disbursed under the Program.

Outputs

The outputs are the expanded health care available through the expansion of facilities and upgraded equipment.

California Health Facilities Financing Authority

Healthcare Expansion Loan Program II

PERFORMANCE AUDIT - CONTINUED

June 30, 2010

Outcomes

The outcomes are the increased quality of care and availability of healthcare to individuals obtaining care from non-profit small and rural healthcare facilities in areas of California.

**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 documentation describing the Program.
- We interviewed management and the Authority staff.
- We reviewed the relevant documents such as the 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 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.

California Health Facilities Financing Authority

Healthcare Expansion Loan Program II

PERFORMANCE AUDIT - CONTINUED

June 30, 2010

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

- We selected samples from the outstanding loans as of June 30, 2010. We performed procedures on all of the loans issued during the period July 1, 2009 through June 30, 2010 for compliance with the policies and procedures. This consisted of 8 files.
- We reviewed the availability of the applications and the process an applicant follows to submit the application to CHFFA.
- We reviewed the fee schedule and process CHFFA utilizes for collecting the fees.
- We reviewed CHFFA's due diligence process and procedures.
- We reviewed the loan documents to ensure they contained information required by the loan program.
- 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.

**AUDIT RESULTS**

- 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 both paper applications but plans to accept electronic applications in the near future. 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.

California Health Facilities Financing Authority

Healthcare Expansion Loan Program II

PERFORMANCE AUDIT - CONTINUED

June 30, 2010

- 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:
  - Most recent three years audited financial statements
  - Estimated sources and uses of the proceeds
  - Management Discussion of Financials/List of Debt
  - Population serviced/utilization and community service
  - Legal Status Questionnaire
  - Religious Affiliation Due Diligence
  - Community Center Certificate
  - Schedule of monthly and Annual Loan Payments
  - Corporate Status
  - Seismic Upgrades (For Acute Care Hospitals Only)
- Our review of the fee schedule and process CHFFA utilizes for collecting the fees resulted in the following observations:
  - The fee schedule is included in the HELP II overview on the website.
  - The nonrefundable application fee is to be sent in along with the application package. In the event that an application fee is not received, the Agency will attempt to collect the fee during the period the application is being reviewed.
- 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.



California Health Facilities Financing Authority

Healthcare Expansion Loan Program II

PERFORMANCE AUDIT - CONTINUED

June 30, 2010

- The checklists are very detailed and provide a manner to organize the significant number of documents and calculations performed.
- In addition CHFFA utilizes an outside firm to perform an independent financial review of the applications.
- We compared the date stamp of the application received and compared it to the date the loan was funded. We noted that the time to process the application from receipt to funding is approximately 60 days.
- During our review of the loan agreements to ensure they contained required information, 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 a number of reviews at various levels to ensure that the application includes all of the supporting documentation and determination of funding the loans.
- During our review of the resolutions by the Authority's Board to ensure that a loan 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 project loan is maintained in the file and also in the board minutes online.
- Our review of the disbursements noted that the Authority sends a check request to the State Controller's Office (SCO) and once received the checks are kept in a safe at the Authority until the date of closing at which time the checks are sent to the escrow agent or directly to the borrower for equipment. This is done to avoid any potential delays of the escrow closing and the timing it takes to obtain the checks from SCO.
- Our review of the ongoing monitoring requirements and process in place by CHFFA resulted in the following observations:

California Health Facilities Financing Authority

Healthcare Expansion Loan Program II

PERFORMANCE AUDIT - CONTINUED

June 30, 2010

- The borrowers are required to submit annual audited financial statements annually.

Measurement

- The Authority produces a bi-annual report showing life-to-date financial, geographic and demographic statistics for the original HELP and HELP II loan programs (the original HELP II program is no longer actively providing new loans). This report provides detailed information for each loan that was funded under the program, the type of projects financed, the type of facilities financed, the number of projects and dollars loaned by geographical area and the gender, age and ethnic composition of the clientele served.

**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.
- We recommend the Authority obtain the nonrefundable fee prior to reviewing the application in an effort to ensure that all nonrefundable fees are received.
- We noted that as of June 30, 2010, checks amounting to \$1,500,000 were being held in a safe at the Authority. The checks could remain held for several weeks waiting for the closing date. During the holdup period, the Authority ceases to earn interest on its cash account and does not earn interest on the loan because closing has not occurred. We recommend that the Authority implement a process with SCO that will permit to reduce the time delay during which SCO will cut the checks and therefore avoid having the checks issued several weeks before the actual closing date.
- During our discussions, it was noted that during the year the processes included obtaining an independent analysis for approval of the application from a third party financial analyst. However, of the applications received after the policy was implemented, 1 of the

California Health Facilities Financing Authority

Healthcare Expansion Loan Program II

PERFORMANCE AUDIT - CONTINUED

June 30, 2010

8 files did not have an analysis performed. It is recommended that support be in the form of written documentation and included in the file to support the decision for approval or denial of the application.

- 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 a written policy for obtaining the close out documentation of the project.

**RESPONSE TO THE AUDIT**

For each recommendation included in the audit report, the following is our corrective action(s) taken or proposed. For recommendations where corrective action has not been taken or proposed, we have included the following explanations.

Recommendations:

- 1) Review the checklists on an annual basis and update them as needed.

Response: The checklists serve as step by step guidelines for the analysts. The checklists cover the application process to the closing of the loan. Management is in the process of reviewing and updating the checklists to ensure they are current and accurate. Management anticipates completing the revised checklist by July 31, 2012. In addition, management will review and update the checklists on an annual basis.

- 2) Obtain nonrefundable application fee prior to reviewing the loan application.

Response: Management proposes the following process: In the event an application is submitted without the appropriate fee, management will request the executive assistant to follow up with the borrower to collect the fee. In the event the fee is not received within seven calendar days, the executive assistant will notify the borrower in writing that the borrower's loan will be placed on hold pending receipt of the application fee.

California Health Facilities Financing Authority

Healthcare Expansion Loan Program II

PERFORMANCE AUDIT - CONTINUED

June 30, 2010

- 3) Implement a process with the State Controller's Office (SCO) that will reduce the time delay during which SCO will cut the check and the funds are dispersed to borrowers.

Response: Management has implemented an updated policy since the fiscal year ended in June 30, 2010. The new policy is a SCO check will not be ordered until all of the loan funding conditions have been met, reviewed by the analyst and approved by management. This process has been updated on the Closing checklist.

- 4) Independent analysis from third party financial analyst was missing in 1 of 8 files.

Response: Management has determined the independent analysis was completed by the third party on the file in question. However, a copy of the independent analysis was not placed in the permanent file. It has been corrected and a copy of the independent analysis has been properly placed in the permanent file. Management has added this process to the Closing checklist to ensure this step is completed.

- 5) Implement a written policy for obtaining the close out documentation of the project.

Response: Management has implemented a written close out process that details the steps the analyst must take to monitor the project, receive the necessary documentation such as an appraisal, verification of borrower's funds, or completed loan documents to close out the transaction. The steps have been added to the Closing Checklist to ensure the process is complete.