

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

PERFORMANCE AUDIT

JUNE 30, 2011

California Health Facilities Financing Authority
Children's Hospital Program

TABLE OF CONTENTS

	PAGE
TRANSMITTAL LETTER	3
GENERAL BACKGROUND AND OVERVIEW	4
PERFORMANCE AUDIT STANDARDS AND METHODOLOGY	11
PERFORMANCE AUDIT RESULTS	13
RECOMMENDATIONS	17
MANAGEMENT RESPONSE TO THE PERFORMANCE AUDIT	19

TRANSMITTAL LETTER

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, 2011. We conducted the performance audit in accordance with generally accepted government auditing standards promulgated by the Comptroller General of the United States of America. The scope of the performance audit focused on assessing the Authority's internal controls surrounding the Children's Hospital Program (Program). Our report provides recommendations for improving efficiencies and effectiveness of the Program.

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



Sacramento, California
February 18, 2013

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT

June 30, 2011

GENERAL BACKGROUND AND OVERVIEW

In August 2010, the Authority requested a performance audit of the Children's Hospital Program over the internal controls and operational procedures of the Program. We issued a performance audit report for the prior year which mainly focused on the internal control and administrative procedures and our recommendations formulated in the prior year are summarized at page 18 of this report. The current year report will focus on the timing of the major steps for processing the files from receipt of the applications through the disbursements of the funds. The purpose of the performance audit is to provide the Authority recommendations in order to improve the operating effectiveness and efficiencies of the Program.

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.

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

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 regulations and the Acts name five eligible University of California Hospitals and define criteria whereby 8 nonprofit hospitals were determined to be eligible. The following 13 hospitals are qualifying children's hospitals under the Program:

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

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

The regulations also specifically determined 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>

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

HISTORICAL SUMMARY OF ACTIVITY

Summary of Awards Committed

As of June 30, 2011, the Authority issued cumulative awards of \$860 million representing about 50% of the overall funding allowed under the Program (78% of the 2004 Act funds and 28% 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	\$ 584,325,654	\$ 275,755,965	\$ 860,081,619	50%
Not Committed	165,674,346	704,244,035	869,918,381	50%
	<u>\$ 750,000,000</u>	<u>\$ 980,000,000</u>	<u>\$ 1,730,000,000</u>	<u>100%</u>
% Committed	<u>78%</u>	<u>28%</u>	<u>50%</u>	

Summary of Disbursements on Awards Committed

As of June 30, 2011, the Authority made cumulative disbursements of \$839 million representing about 94% of the total committed awards amounts (95% of the 2004 Act awards and 92% 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	\$ 554,877,573	\$ 254,302,690	\$ 809,180,263	94%
Not disbursed	29,448,081	21,453,275	50,901,356	6%
Total Committed	<u>\$ 584,325,654</u>	<u>\$ 275,755,965</u>	<u>\$ 860,081,619</u>	<u>100%</u>
% Disbursed	<u>95%</u>	<u>92%</u>	<u>94%</u>	

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

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 13% of the commitments while the other 8 children hospitals have 87% 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	\$ 23,610,960	\$ -	\$ 23,610,960	3%
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	-	24,856,250	24,856,250	3%
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>64,696,641</u>	<u>24,856,250</u>	<u>89,552,891</u>	<u>10%</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	82,461,888	97,436,500	179,898,388	21%
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	<u>62,686,319</u>	<u>24,764,529</u>	<u>87,450,848</u>	<u>10%</u>
Sub total Other Children Hospitals	<u>519,629,013</u>	<u>250,899,715</u>	<u>770,528,728</u>	<u>90%</u>
	<u>\$ 584,325,654</u>	<u>\$ 275,755,965</u>	<u>\$ 860,081,619</u>	<u>100%</u>

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

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</u>	<u>Percentage of total</u>
University of California, Davis Children's Hospital	\$ 23,610,960	\$ -	\$ 23,610,960	3%
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	-	24,856,250	24,856,250	3%
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>64,696,641</u>	<u>24,856,250</u>	<u>89,552,891</u>	<u>10%</u>
Children's Hospital of Los Angeles	72,188,287	97,425,947	169,614,234	20%
Children's Hospital Central California (Madera)	59,922,710	2,248,059	62,170,769	7%
Children's Hospital and Research Center Oakland	72,420,508	-	72,420,508	8%
Children's Hospital of Orange County	69,295,812	97,430,506	166,726,318	19%
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	9%
Miller Children's Hospital (Long Beach)	73,944,500	8,731,520	82,676,020	10%
Rady Children's Hospital San Diego	62,686,319	23,610,408	86,296,727	10%
Sub total Other Children Hospitals	<u>490,180,932</u>	<u>229,446,440</u>	<u>719,627,372</u>	<u>89%</u>
	<u>\$ 554,877,573</u>	<u>\$ 254,302,690</u>	<u>\$ 809,180,263</u>	<u>100%</u>

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

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, awards grants to the qualifying hospitals, and neither of the Authority or 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.

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

PERFORMANCE AUDIT STANDARDS AND METHODOLOGY

Performance Audit Standards

We conducted the performance 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

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 grant files which closed during the period July 1, 2010 through June 30, 2011.

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 Program
- We interviewed management and the Authority staff
- We reviewed the relevant documents such as the grant 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.

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

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, 2010 through June 30, 2011. The sample consisted of 6 files. We performed detailed procedures on the 6 files for compliance with the policies and procedures of the Program.
- 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 put in place by CHFFA.

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

PERFORMANCE AUDIT RESULTS

- The following chart summarizes the grants approved during the fiscal year ending June 30, 2011:

Grantee	Application Received	Date of Board Approval
University of California, San Diego Medical Center	10/29/2010	1/27/2011
Children's Hospital of Orange County	3/2/2011	4/28/2011
University of California, Davis Medical Center	2/22/2011	4/28/2011
Long Beach Memorial Medical Center (Miller Children's Hospital)	6/29/2010	9/2/2010
UCLA Medical Center (Mattel Children's Hospital)	6/8/2010	9/2/2010
Rady Children's Hospital - SanDiego	1/12/2011	1/27/2011

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

- The following chart summarizes the time that elapsed in days from the date of receipt of the application and from the date of Board approval to the date of disbursement of the funds:

Grantee	Application Received	Date of Board Approval	Disbursement Date	Days from Application	Days from Board Approval
University of California, San Diego Medical Center	10/29/2010	1/27/2011	9/29/2011	335	245
Children's Hospital of Orange County	3/2/2011	4/28/2011	N/A	N/A*	N/A*
University of California, Davis Medical Center	2/22/2011	4/28/2011	9/6/2011	196	131
Long Beach Memorial Medical Center (Miller Children's Hospital)	6/29/2010	9/2/2010	2/10/2011	226	161
UCLA Medical Center (Mattel Children's Hospital)	6/8/2010	9/2/2010	11/5/2010	150	64
Rady Children's Hospital - San Diego	1/12/2011	1/27/2011	4/5/2011	83	68
*Grant was not disbursed as of 6/30/2011					
Average Days				198	134
Median Days				196	131

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

- The following chart summarizes the time that elapsed in days to the board of directors' approval from the application received:

Grantee	Application Received	Next Deadline for Receipt	Date of Board Approval	Total Days Taken
University of California, San Diego Medical Center	10/29/2010	12/1/2010	1/27/2011	57
Children's Hospital of Orange County	3/2/2011	4/1/2011	4/28/2011	27
University of California, Davis Medical Center	2/22/2011	3/1/2011	4/28/2011	58
Long Beach Memorial Medical Center (Miller Children's Hospital)	6/29/2010	7/1/2010	9/2/2010	63
UCLA Medical Center (Mattel Children's Hospital)	6/8/2010	7/1/2010	9/2/2010	63
Rady Children's Hospital - SanDiego	1/12/2011	2/1/2011	1/27/2011	-5
Average Days Taken				44
Median Days Taken				58

Note: The regulations section 7037 (2004 Act) and 7058 (2008 Act) require the board approval within 60 days of the next application deadline from the date the application is received, except in November, when applications are not received and October when the deadline is always the 7th.

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

- The following chart summarizes the time that elapsed from the date of the Analyst sign off and the manager approval through the date of disbursement:

Grantee	Date of Analyst Signoff	Date of Manager approval	Date of Disbursement	Days from Analyst Sign off to Manager Approval	Days from Manager Approval to Disbursement
University of California, San Diego Medical Center	9/26/2011	9/27/2011	9/29/2011	1	2
Children's Hospital of Orange County	N/A	N/A	N/A	N/A*	N/A*
University of California, Davis Medical Center	9/1/2011	9/1/2011	9/6/2011	0	5
Long Beach Memorial Medical Center (Miller Children's Hospital)	2/1/2011	2/8/2011	2/10/2011	7	2
UCLA Medical Center (Mattel Children's Hospital)	11/1/2010	11/1/2010	11/5/2010	0	4
Rady Children's Hospital - SanDiego	4/1/2011	4/4/2011	4/5/2011	3	1
Average Days				2	3
Median Days				1	2

*Grant was not disbursed as of 6/30/2011

It is noted that the funds are being disbursed within a relatively short period of time once the Analyst and the manager approve the disbursement.

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

RECOMMENDATIONS

CURRENT YEAR RECOMMENDATIONS

- Due to the disparities noticed with respect to commitment of the different hospitals, the Authority should consider implementing an outreach program toward the hospitals which are not effectively participating in the Program.
- The Authority should develop a process for tracking the days taken for approval. Based upon the files reviewed, the application process is averaging 63 days to reach approval. Proper processing of these files will give the applicants a more reliable timeline of the funding provided.
- We also recommend that the Authority develop a method to estimate the time between the Board approval and the disbursement dates. The actual time in number of days vary substantially and this makes it difficult for the Authority to predict when the funds will be needed.
- We recommend that the Authority develop additional steps between the Board approval and the disbursement date. Currently, the approval signoffs are to release the funds, but there is significant time from the date of Board approval to the actual date of disbursement of funds.
- We recommend that the Authority retain consistent and up-to-date progress of the construction if not already completed. The progress reports would be a guide to estimate when the project would be complete. Most construction projects have their own progress reports, obtaining one of these would help track the time and money for the project.

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

PRIOR YEAR 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 and 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 a written policy 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 with respect to the target participants (smaller networks versus larger networks) and the geography (rural versus urban areas).
- The Authority should assess the need to implement procedures and mechanisms to gather data and assess the impact of the Program in the community and how the goals and expected outcomes of the Program are being achieved.

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

MANAGEMENT RESPONSE TO THE PERFORMANCE AUDIT

- **“ . . . the Authority should consider implementing an outreach program toward the hospitals not effectively participating in the Program.”**

All hospitals at this point are participating in the program, and those that delayed participation did so for known compelling reasons related to delays in major capital construction projects that an outreach program would not have impacted. Staff has been in communication with each of the thirteen eligible hospitals throughout the term of both Programs.

- **“ . . . the Authority should develop a process for tracking the days taken for approval.”**

The 63-day average length of time from application to approval is not related to delays in the review process. First, the 60-day “clock” does not start from the date the application is received but rather from the next deadline after its receipt (which is the first working day of the month, except in November (when applications aren't accepted) and in October, (when the deadline is always the 7th). See regulations section 7037 (2004 Act) and 7058 (2008 Act). Second, in each instance cited in the table on page 14 in which total days taken exceeds sixty, the reasons (board meeting postponed, application received in advance of deadline, etc.) are documented and have been cleared by the Bureau of State Auditors.

CHFFA management will consider changes to the regulations to clarify the sixty-day review rule and to anticipate board meeting delays.

- **“ . . . We recommend the Authority develop additional steps between the Board approval and the disbursement date . . . there is significant time from the date of Board approval to the actual date of disbursement of funds.”**

There are always several intermediate steps between approval and disbursement, several of which are dependent on hospital readiness: The board of the hospital has to approve a

California Health Facilities Financing Authority
Children's Hospital Program

PERFORMANCE AUDIT - CONTINUED

June 30, 2011

resolution accepting the grant and delegating authority related to its execution; the grant agreement must be executed; the hospital must request disbursement and provide documentation of eligibility of costs; eligibility of each costs must be established; two disbursement checklists must be completed and approved; a disbursement form must be completed and approved; the accounting office must coordinate with the Controller's Office for approval; the money is wired by the Treasurer's Office. Each of these steps is documented. The program will add a step whereby hospitals will provide written, signed estimated schedules of disbursement requests.

- **“... We recommend that the Authority retain consistent and up-to-date progress of the construction if not already completed. The progress reports would be a guide to estimate when the project would be complete. Most construction projects have their own progress reports, obtaining one of these would help track the time and money for the project.”**

The program will add a step whereby hospitals will provide written, signed estimated schedules of disbursement requests. This will be required for construction projects and other types of capital projects funded by the program. The project completion date is set at the time of the board resolution based on timelines provided in the grant application, and the need for extensions has been rare.