

Children's Hospital Program

Procedures for Awarding Grants Are Adequate, but Some Improvement Is Needed in Managing Grants and Complying With the Governor's Bond Accountability Program

REPORT NUMBER 2009-042, MAY 2009

California Health Facilities Financing Authority's response as of November 2009

The Children's Hospital Bond Act of 2004 (2004 act) established the Children's Hospital Program (program) and authorized the State to sell \$750 million in general obligation bonds to fund it. The purpose of the program is to improve the health and welfare of California's critically ill children by funding capital improvement projects for qualifying children's hospitals. The California Health Facilities Financing Authority (authority) is authorized by the 2004 act to award grants for the purpose of funding eligible projects. The 2004 act also states that the Bureau of State Audits may conduct periodic audits to ensure that the authority awards bond proceeds in a timely fashion and in a manner consistent with the requirements of the 2004 act, and that grantees of bond proceeds are using funds in compliance with applicable provisions.

Finding #1: The authority does not always ensure that it receives interest earned on advances of program funds to grantees.

The authority's regulations state that children's hospitals not within the University of California (UC) system may receive advances of program funds, and the authority is required to recover any interest earned on these advanced funds by reducing subsequent disbursements. However, the authority does not always comply with this requirement. For example, we noted that the authority did not recover interest from two hospitals, totaling more than \$34,000, even though the two hospitals reported the interest earnings to the authority. According to the authority's program manager, the authority should be recovering such earned interest, and it plans to do so by reducing future grant disbursements to the two hospitals by the amount of the interest earnings.

In addition, although the authority's grant agreements with children's hospitals require that the grantees establish separate bank accounts or subaccounts for grant funds and provide to the authority copies of all statements for these accounts, the authority has not ensured that hospital grantees not in the UC system submit all bank statements. Periodic collection of these bank statements would assist the authority in identifying interest that may have been earned, allowing it to credit this interest against future disbursements or to collect the interest from the hospitals.

Finally, the authority's current regulations do not require that grantees deposit advanced grant funds in an interest-bearing account, although some grantees have done so. Given the amount of bond proceeds

Audit Highlights . . .

Our review of the administration and use of bond proceeds from the Children's Hospital Bond Act of 2004 (2004 act) revealed the following:

- » *The 2004 act's restrictive requirements limit the number of hospitals that can use the funds.*
- » *The California Health Facilities Financing Authority (authority) did not always recover interest earnings on funds paid to the hospitals in advance of actual expenditures—we identified more than \$34,000 of interest due to the State.*
- » *The authority's regulations do not require grantees that are not in the University of California system to deposit fund advances in interest bearing accounts.*
- » *The authority has not finalized and implemented procedures to close out program grants.*
- » *Although the authority desires to voluntarily comply with the governor's 2007 executive order regarding accountability for bond proceeds, it is uncertain of its timeline to do so.*

earmarked for hospitals not in the UC system, the potential interest earnings on funds advanced to grantees may be significant. According to the program manager, he knows of no legal prohibition against such a requirement and intends to seek an opinion from the program's staff counsel.

We recommended that the authority verify that it has the legal authority to require grantees that are not in the UC system to deposit grant funds paid in advance of project expenditures in an interest bearing account and, if it has such authority, require that grantees earn interest on grant funds. In addition, the authority should develop and implement procedures to ensure that it promptly identifies and collects interest earned on those advances.

Authority's Action: Partial corrective action taken.

According to the authority, its legal counsel advised that there are no legal impediments to requiring hospitals not in the UC system to establish interest bearing accounts. As such, the authority indicated it formed a working group, which has met, to determine how best to implement this recommendation. The authority decided it is not going to pursue regulations at this time, but is now advising grantees to establish interest-earning accounts. However, the authority indicated that it has internally agreed to remain flexible in this area in that, to the extent a grantee demonstrates extenuating circumstance to justify the use of noninterest bearing accounts, it will consider their position on a case-by-case basis.

The authority also indicated that currently it has procedures in place to identify and collect interest earned on advances, but takes note of our recommendation to ensure these tasks are performed as promptly as possible. It reiterates that prior to the final disbursement for a grant award, the authority's staff will review bank statements for the dedicated account and direct the grantee to remit interest generated by grant disbursements for that award. We are concerned with the authority's response, because it made these same statements in its response at the time we published our report in May 2009; however, as we indicated in our report, the authority's procedures were not effective to ensure that it collects all bank statements and promptly collects interest earnings on advances of grant funds.

Finding #2: The authority has not promptly and effectively closed out grants for completed projects.

The authority has not yet finalized and implemented procedures to close out program grants. Although it has received some documentation from grantees regarding project completion, it does not ensure that all required information is received and has not determined all the steps it needs to perform to close out grants after projects are completed. The authority's regulations contain requirements for completed projects that include items such as a certification that the project is complete and documentation clearly showing that grant awards do not exceed the cost of the project. The authority has developed a checklist to use in gathering and evaluating information regarding completed projects. However, the authority does not always promptly complete the checklist. In addition, the checklists showed no evidence of review by program management. One of the items not completed on the checklist was whether the grantee provided a final report referred to as the Completion Certificate and Final Report. The authority requires grantees to submit this report to document, under penalty of perjury, the uses of funds expended on the project; estimated total cost of the project; interest earned on advanced grant funds; whether the hospital received a notice of completion for the project; the results of the project and the performance measures used; and any follow-up implementation actions such as equipment, staffing, or licensing. At the time of our fieldwork, March 2009, the authority still had not received a Completion Certificate and Final Report from two hospitals even though their projects had completion dates of October 2007 and September 2008.

Finally, according to the program manager, the authority may need to take additional steps to achieve final closeout of the grants for completed projects, however, the authority has not yet identified the additional steps it would need to take to officially close out an award.

We recommended that to ensure that the authority meets the objectives contained in the program regulations for the completion of grant-funded projects, including obtaining certification that projects are completed and grants do not exceed project costs, it should take the steps necessary to ensure that it promptly executes its project completion checklist, determines any additional steps it needs to perform to close out grants, and finalizes and implements the necessary steps to ensure that grant closeout procedures are followed.

Authority's Action: Partial corrective action taken.

The authority indicates that it believes it is and has taken all reasonable steps necessary to verify completion of a project and to close out grants. However, it stated that to further enhance its closeout procedures, in addition to the use of a project completion checklist, the authority has developed and implemented a standard letter to grantees, as well as a standard memorandum-to-file, to be written upon the completion of the requirements for each grant award in order to memorialize the finality of a grant award and that all grant requirements have been met. Again, we are concerned with the authority's response because, although it indicates it enhanced its close-out procedures, it does not address whether it is now promptly completing its project completion checklist.

Finding #3: The authority is uncertain of its timeline to voluntarily implement the governor's bond accountability program.

Although the authority is not required to comply with the governor's January 2007 executive order regarding accountability for bond proceeds, according to the program manager, the authority desires to voluntarily comply with the bond accountability standards and is working with the Department of Finance (Finance) to implement the executive order. We believe that the information required by the executive order regarding the use of the bond proceeds will benefit interested members of the public. However, the authority's program manager indicated that he is uncertain whether the authority has sufficient staff time available to ensure compliance in the near future. He stated that even though the authority plans to hire one additional staff member, a considerable amount of time and effort will be needed to address existing program needs, as well as to implement the additional funding for the children's hospital program authorized by the voters in November 2008.

We recommended that since the authority has decided it desires to comply with the governor's executive order to provide accountability for the use of bond proceeds, it should develop and submit to Finance an accountability plan for its administration of the program bonds. In addition, it should take the necessary steps to periodically update Finance's bond accountability Web site to provide public access to information regarding its use of the bond proceeds.

Authority's Action: Partial corrective action taken.

According to the authority, it has submitted a proposed bond accountability plan to Finance for its review and, currently, the authority is waiting for a response from Finance. Additionally, the authority stated that it will work to periodically update Finance's bond accountability Web site with information regarding the use of bond proceeds.