

Children's Hospital Program

Fund Disbursements Are Appropriate, but Estimates of Cash Needs Have Been Consistently High

REPORT NUMBER 2012-042, ISSUED JULY 2012

This report concludes that the California Health Facilities Financing Authority (authority), which administers the program, complied with laws and regulations related to awarding grants for eligible hospitals to construct or improve children's facilities. Further, the authority has a process for monitoring grants and has processed payments to grantees in accordance with the law. However, the authority's administration of the program could be more efficient. The authority requested bond sales that were in excess of its cash needs at a time when California's credit rating was low and interest-rate volatility was high. As a result, the State paid as much as \$16 million in interest annually on the idle capital while the State was facing cash shortfalls.

Although the authority could not have foreseen or mitigated all of the circumstances that led to an excessive fund balance, its estimates of cash needs have consistently been well above actual disbursements. This pattern, as well as some hospital project delays that it could have anticipated, indicate that the authority needs to revise the way it makes yearly projections of cash needs. In particular, the authority currently includes in its estimates the projected cash needs of hospitals that have not yet submitted a project application for approval.

In the report, the California State Auditor (state auditor) made the following recommendations to the authority. The state auditor's determination regarding the current status of recommendations is based on the authority's response to the state auditor as of September 2012.

Recommendation 1—See pages 13—15 of the audit report for information on the related finding.

To avoid contributing to the State's financial strain, the authority should limit future bond sales to the level of disbursements it reasonably expects to make during the following six-month period.

Authority's Action: Pending.

The authority indicates it has not requested additional bond funds.

Recommendation 2—See pages 10 and 11 of the audit report for information on the related finding.

The authority should reduce its current cash balance by continuing to make disbursements to hospitals while refraining from requesting additional bond sales. If the authority believes it needs to retain a portion of its cash balance as a contingency reserve for unforeseen circumstances, it should perform and document an analysis demonstrating the appropriateness of the reserve level it adopts.

Authority's Action: Pending.

As noted above, the authority indicates that it has not requested additional bond funds, and that it continues to process requests for disbursements of grant funds received from hospitals. The authority reports it has undertaken an analysis with its financial advisor to identify an appropriate reserve level, and expects to report on the results of this analysis and the resulting implementation plans in its six-month response.

Recommendation 3—See page 16 of the audit report for information on the related finding.

To allow for more accurate planning of upcoming cash needs, the authority should refine its cash-projection process to more accurately reflect its near-term cash needs. Specifically, the authority should refrain from requesting additional bond sales for projects that have not yet received project approval from the authority.

Authority's Action: Pending.

As part of the analysis described in Recommendation 2, the authority indicates its financial advisor will provide guidance in forecasting grant disbursement needs. It further indicates it will not request bond funds for projects that have not yet received project approval from the authority.

Recommendation 4—See pages 16 and 17 of the audit report for information on the related finding.

For hospitals with existing projects, the authority should request written confirmation from hospitals that detail when the hospitals will submit disbursement requests for approved funds.

Authority's Action: Pending.

The authority indicates that, upon execution of new grant agreements, it will request that the grantee provide in writing the projections of timing and the amount of disbursement requests.