CALIFORNIA STATE AUDITOR
Elaine M. Howle, State Auditor
FACT SHEET

Date: **May 21, 2009** **Report: 2009-042**

The California State Auditor released the following report today:

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

BACKGROUND

To improve the health and welfare of California's critically ill children, the Children's Hospital Program (program) was established when voters approved the Children's Hospital Bond Act of 2004 (2004 act), which authorized the State to sell $750 million in general obligation bonds to fund the program. In 2008 voters approved an additional $980 million (2008 act) for the program, although these funds have not been available to the hospitals because of the State's budget crisis. The California Health Facilities Financing Authority (authority) is responsible for awarding and managing grants to fund eligible projects. The acts identified two groups of general acute care hospitals as eligible for the program—five University of California (UC) hospitals and other hospitals that meet the eligibility requirements. As of February 2009, the authority had awarded about $404 million in program grants and disbursed about $339 million to grantees.

KEY FINDINGS

During our review of the acts and the administration and use of bond proceeds from the 2004 act, we noted the following:

- In addition to the five UC hospitals specified in the act, only eight other hospitals not in the UC system will receive funds because of the acts' eligibility restrictions. Although serving somewhat similar populations of pediatric patients, 12 hospitals, including two Shriners' hospitals and Cedars-Sinai Medical Center, did not qualify for the program.

- According to the acts, 20 percent of the funds are earmarked for the five hospitals in the UC system, while 80 percent are earmarked for the other hospitals. Because only eight hospitals qualify to receive 80 percent of the funds, those hospitals potentially qualify to receive up to a maximum of $172 million each, while UC hospitals can potentially receive a maximum of $69.2 million each.

- Although the authority's efforts to award grants appear adequate, it needs some improvement in managing the grants.
  - ✓ It did not always recover interest earnings on funds paid to the hospitals in advance of actual expenditures—we identified $34,000 of interest due to the State.
  - ✓ Despite 80 percent of the program funds earmarked for hospitals not in the UC system, the authority's regulations do not require these grantees to deposit any advances of funds in interest-bearing accounts.
  - ✓ The authority has not promptly closed out grants for completed projects—two grantees completed their projects in October 2007 and September 2008, respectively, but as of March 2009 the authority still had not received a Completion Certificate and Final Report from either grantee.

KEY RECOMMENDATIONS

We made several recommendations to the authority, including that it should promptly identify and collect interest earned on program fund advances and verify its authority for requiring grantees to deposit grant funds paid in advance in an interest-bearing account. We also advised the authority to properly and promptly close out completed projects.