

**CALIFORNIA HEALTH FACILITIES  
FINANCING AUTHORITY  
HEALTHCARE EXPANSION LOAN PROGRAM II**

**PERFORMANCE AUDIT**

JUNE 30, 2011

California Health Facilities Financing Authority  
Healthcare Expansion Loan Program II

PERFORMANCE AUDIT

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TRANSMITTAL LETTER

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, 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 HELP II 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

Healthcare Expansion Loan Program II

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**GENERAL BACKGROUND AND OVERVIEW**

In August 2010, the Authority requested a performance audit of the HELP II 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 prior year are summarized at page 15 of this report. This current report will focus in addition to the timing of the major steps for processing the loans 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 Agency

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

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**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, 2011 loans in the amount of \$36.9 million remain outstanding. During the fiscal year ended June 30, 2011, the Authority awarded new loans amounting to \$6.5 million 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.

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.

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**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 loan issuance and reviewing all of the loan files which closed during the period July 1, 2010 through June 30, 2011.

To gain and update our 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 and update our 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 and update our understanding of the processes and procedures for reviewing applications for eligibility and approval.

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- We reviewed the files and followed through the various stages of the processing timeline and gathered information regarding the time spent at each major stage.

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, 2011. We performed procedures on all of the loans issued during the period July 1, 2010 through June 30, 2011 for compliance with the policies and procedures. This consisted of 12 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, procedures and length of time each stage has taken.
- We reviewed the loan documents to ensure they contained information required by the 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.

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**PERFORMANCE AUDIT RESULTS**

- Our review of the documented application processing timeline resulted in the following observations:
  - During fiscal year 2011, 7 loans were closed and 3 loan applications were in process. The following chart summarizes the loan processing activity:

Borrower	Date Application Received	Loan Closing Date
Venice Family Clinic	4/22/2010	8/1/2010
Seneca Healthcare District	2/22/2010	1/13/2011
Redwoods Rural Health Center, Inc.	8/20/2010	12/30/2010
Modoc Medical Center (the Last Frontier Healthcare District)	7/12/2010	1/1/2011
Southern Humboldt Community Healthcare District	5/19/2010	12/1/2010
Victor Treatment Centers, Inc.	9/20/2010	12/29/2010
VTC Enterprises	7/15/2010	5/27/2011
Vista Community Clinic #2	7/20/2010	10/7/2011
Santa Cruz Women's HealthCenter	2/22/2011	7/20/2011
Center for Recovery from Compulsivities, Inc.	5/17/2010	9/28/2011

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- The following chart summarizes the average and median time for an application received to be approved by the Board and the time from the Board approval to the final execution of the loan documents.

Borrower	Date of Application Received	Date of Loan Approved by Board of Directors	Days to Board Approval	Date Loan & Security Agreement signed by CHFFA & Borrower	Days from Board Approval to signed documents
Venice Family Clinic	4/22/2010	5/27/2010	35	7/1/2010	35
Seneca Healthcare District	2/22/2010	3/25/2010	31	12/1/2010	251
Redwoods Rural Health Center, Inc.	8/20/2010	9/30/2010	41	12/1/2010	62
Modoc Medical Center (the Last Frontier Healthcare District)	7/12/2010	10/28/2010	108	11/1/2010	4
Southern Humboldt Community Healthcare District	5/19/2010	7/29/2010	71	12/1/2010	125
Victor Treatment Centers, Inc.	9/20/2010	10/28/2010	38	12/1/2010	34
VTC Enterprises	7/15/2010	9/30/2010	77	4/1/2011	183
Vista Community Clinic #2	7/20/2010	6/30/2011	345	9/1/2011	63
Santa Cruz Women's HealthCenter	2/22/2011	3/24/2011	30	6/1/2011	69
Center for Recovery from Compulsivities, Inc.	5/17/2010	9/30/2010	136	9/1/2011	336
Average days			91		116
Median days			56		66

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- The following chart summarizes the time that elapsed in days from the date the loan and security agreements were signed by both CHFFA and the borrower to the date the UCC filing is completed. On average it takes almost 3 months to complete the UCC filing from the date the loan documents are signed.

Borrower	Date Loan and Security Agreement are signed by CHFFA and the Borrower	Date of UCC Filing	Days
Venice Family Clinic	7/1/2010	7/15/2010	14
Seneca Healthcare District	12/1/2010	1/20/2011	50
Redwoods Rural Health Center, Inc.	12/1/2010	1/5/2011	35
Modoc Medical Center (the Last Frontier Healthcare District)	11/1/2010	12/31/2011	425
Southern Humboldt Community Healthcare District	12/1/2010	2/3/2011	64
Victor Treatment Centers, Inc.	12/1/2010	1/3/2011	33
VTC Enterprises	4/1/2011	6/1/2011	61
Vista Community Clinic #2	9/1/2011	10/10/2011	39
Santa Cruz Women's HealthCenter	6/1/2011	7/26/2011	55
Center for Recovery from Compulsivities, Inc.	9/1/2011	9/29/2011	28
Average days from loan signing to UCC filing			80
Median days from loan signing to UCC filing			45

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PERFORMANCE AUDIT - CONTINUED

June 30, 2011

- The following chart summarizes the length of time between the date the loan documents are signed and the date CHFFA receives the initial disbursement request from the borrower:

Borrower	Date of Loan and Security Agreement signed by CHFFA and the Borrower	Date of Disbursement Request	Days
Venice Family Clinic	7/1/2010	6/16/2010	-15
Seneca Healthcare District	12/1/2010	6/16/2010	-168
Redwoods Rural Health Center, Inc.	12/1/2010	12/17/2010	16
Modoc Medical Center (the Last Frontier Healthcare District)	11/1/2010	12/15/2010	44
Southern Humboldt Community Healthcare District	12/1/2010	6/9/2011	190
Victor Treatment Centers, Inc.	12/1/2010	12/17/2010	16
VTC Enterprises	4/1/2011	5/13/2011	42
Vista Community Clinic #2	9/1/2011	9/8/2011	7
Santa Cruz Women's HealthCenter	6/1/2011	6/23/2011	22
Center for Recovery from Compulsivities, Inc.	9/1/2011	9/8/2011	7
Average days from loan signing to disbursement request			16
Median days from loan signing to disbursement request			16

Note: Of the 10 loans tested, two of the borrowers submitted the disbursement request prior to the loan documents being signed.

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- The following chart summarizes the time that elapsed from the application date and the date the loan documents were signed, and the date of the loan closing.

Borrower	Date of Application Received	Date of Loan and Security Agreement signed by CHFFA and the	Loan Closing Date	Days from Application receipt to loan closing	Days from Loan documents signed to loan closing
Venice Family Clinic	4/22/2010	7/1/2010	8/1/2010	101	31
Seneca Healthcare District	2/22/2010	12/1/2010	1/13/2011	325	43
Redwoods Rural Health Center, Inc.	8/20/2010	12/1/2010	12/30/2010	132	29
Modoc Medical Center (the Last Frontier Healthcare District)	7/12/2010	11/1/2010	1/1/2011	173	61
Southern Humboldt Community Healthcare District	5/19/2010	12/1/2010	12/1/2010	196	
Victor Treatment Centers, Inc.	9/20/2010	12/1/2010	12/29/2010	100	28
VTC Enterprises	7/15/2010	4/1/2011	5/27/2011	316	56
Vista Community Clinic #2	7/20/2010	9/1/2011	10/7/2011	444	36
Santa Cruz Women's HealthCenter	2/22/2011	6/1/2011	7/20/2011	148	49
Center for Recovery from Compulsivities, Inc.	5/17/2010	9/1/2011	9/28/2011	499	27
Average days to loan closing				243	40
Median days to loan closing				185	36

- The following chart summarizes the time that elapsed from the date the application was received, the date of the loan closing to the date the loan fee was collected.

Borrower	Date of Application Received	Loan Closing Date	Date of Loan fee Collection	Days from application to loan fee collection	Days from loan closing to loan fee collection
Venice Family Clinic	4/22/2010	8/1/2010	8/6/2010	101	5
Seneca Healthcare District	2/22/2010	1/13/2011	1/13/2011	325	
Redwoods Rural Health Center, Inc.	8/20/2010	12/30/2010	12/30/2010	132	
Modoc Medical Center (the Last Frontier Healthcare District)	7/12/2010	1/1/2011	3/11/2011	242	69
Southern Humboldt Community Healthcare District	5/19/2010	12/1/2010	7/14/2011	421	225
Victor Treatment Centers, Inc.	9/20/2010	12/29/2010	12/29/2010	100	
VTC Enterprises	7/15/2010	5/27/2011	5/27/2011	316	
Vista Community Clinic #2	7/20/2010	10/7/2011	10/7/2011	444	
Santa Cruz Women's HealthCenter	2/22/2011	7/20/2011	7/20/2011	148	
Center for Recovery from Compulsivities, Inc.	5/17/2010	9/28/2011	9/28/2011	499	
Average days to loan closing				273	100
Median days to loan closing				279	69

Note: The majority of loan fees are collected at the loan closing.

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- The following chart summarizes the time between the receipt of the application and when CHFFA receives the completion documents:

Borrower	Date of Application Received	Loan Closing Date	Date of Completion Documents Received	Days from application date to receipt of completion documents	Days from loan closing to receipt of completion documents
Venice Family Clinic	4/22/2010	8/1/2010	1/28/2011	281	180
Seneca Healthcare District	2/22/2010	1/13/2011	1/13/2011	325	0
Redwoods Rural Health Center, Inc.	8/20/2010	12/30/2010	12/30/2010	132	0
Modoc Medical Center (the Last Frontier Healthcare District)	7/12/2010	1/1/2011	12/17/2010	158	-15
Southern Humboldt Community Healthcare District	5/19/2010	12/1/2010	None		
Victor Treatment Centers, Inc.	9/20/2010	12/29/2010	12/29/2010	100	0
VTC Enterprises	7/15/2010	5/27/2011	None		
Vista Community Clinic #2	7/20/2010	10/7/2011	N/A		
Santa Cruz Women's HealthCenter	2/22/2011	7/20/2011	7/20/2011	148	0
Center for Recovery from Compulsivities, Inc.	5/17/2010	9/28/2011	9/28/2011	499	0
Average days to loan closing				235	24
Median days to loan closing				158	0

Note: most loans close with the completion documents being submitted at that time.

- The borrowers are required to submit the following documents annually:
  - Annual audited financial statements
  - Debt service coverage ratio
  - Statement regarding the use of proceeds
- Of the 10 files tested, none of the files were required to go through the legal department.
- Of the 10 files tested, none of the files contained documentation of when or by whom the files were reviewed by either the Analyst or the Manager.

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**RECOMMENDATIONS**

**CURRENT YEAR RECOMMENDATIONS**

- We recommend that the Authority not close the loans before verifying that all the exhibits are included in the Loan Documents. During the testing of the HELP II Loan files, we discovered that 6 out of the 10 loans were missing Exhibits A, B, C and E. These exhibits are crucial to accurate loan filings and assurance that the applications contained all the appropriate documentation.
- We recommend to include documentation in the loan files as to when the Financial Consultant (Macias) received the application for review and when they returned it with their opinion and recommendation. The Board minutes consistently noted Macias' approval for the proposed loans, however there was no documentation in the loan files of the work product issued by Macias documenting their analyses, conclusions and recommendations.
- We recommend the files include the proper documentation to substantiate the reviews and approvals performed by the Analyst and the Manager in order for each of the files to stand on its own with respect to the documentation of approval. We noted that the page indicating reviews by the Analyst and Manager were not included in the files.
- Regarding the checklists, we recommend that the checklists be updated to reflect current needs in place of crossing out and writing new material. Once this is completed, we recommend that the Authority uses the checklists accurately, including check-offs and sign-offs from the Analyst and Manager in charge of the application.

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**PRIOR YEAR RECOMMENDATIONS**

The HELP II 2010 performance audit was finalized on June 5, 2012, therefore, the Authority has not had the opportunity to implement the recommendations prior to the completion of the 2011 performance audit. Please refer to the 2010 HELP II performance audit for management's response to the recommendations listed below.

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 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.

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**MANAGEMENT'S 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. Do not close the loans before verifying that all the exhibits are included in the Loan Documents.

Response: Agree. Management will provide additional training to the analysts to ensure the exhibits are properly displayed in the loan documents. Management will sign off on the closing checklist before the file is closed. In addition, we are in the process of hiring a Compliance Officer for the Authority. One of the Compliance Officer's duties will be to verify the loans have been properly closed and all of the required exhibits are included in the file.

2. Include documentation in the loan files as to when the Financial Consultant (Macias) received the application for review and when they returned it with their opinion and recommendation. The Board minutes consistently noted Macias' approval for the proposed loans; however, there was no documentation in the loan files of the work product issued by Macias documenting their analyses, conclusions and recommendations.

Response: Disagree. Once the application has been received, the application is immediately sent to Macias for review. There is no need to note the time of when Macias was sent the application for review and when they returned it with their opinion and recommendation. Macias is involved in the review process from the time the application is received until board approval.

Agree. Macias' written report should be included in the file and will be added as a step on the closing checklist. Management will sign off on the closing checklist before the file is properly closed.

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3. Include in the loan files the proper documentation to substantiate the reviews and approvals performed by the Analyst and the Manager.

Response: Agree. Management will sign off on the closing checklist before the file is properly closed to ensure that all levels of review and approvals have been completed.

4. Update the checklists to reflect current needs in place of crossing out and writing new material. Once this is completed, we recommend that the Authority uses the checklists accurately, including check-offs and sign-offs from the Analyst and Manager in charge of the application.

Response: Agree. The checklists are currently being updated and will be reviewed annually for any further updates.