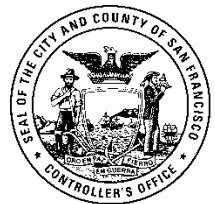


City and County of San Francisco

Office of the Controller – City Services Auditor

DEPARTMENT OF PUBLIC HEALTH:

Laguna Honda Hospital Needs to Improve the Management of Its Gift Fund



November 22, 2010

**CONTROLLER'S OFFICE
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Elisa Sullivan, Audit Manager
Nicholas Delgado, Associate Auditor
Winnie Woo, Associate Auditor



City and County of San Francisco

Office of the Controller - City Services Auditor

Department of Public Health:

November 22, 2010

Laguna Honda Hospital Needs to Improve the Management of Its Gift Fund

Purpose of the Audit

The City Services Auditor assessed whether Laguna Honda Hospital and Rehabilitation Center (Laguna Honda) has administered the Laguna Honda Hospital Gift Fund (Gift Fund) in accordance with the San Francisco Administrative Code.

Highlights

Due to insufficient monitoring and oversight of the Laguna Honda Hospital Gift Fund and the lack of detailed policies and procedures to administer the Gift Fund, Laguna Honda incorrectly recorded into the Gift Fund's staff development accounts \$151,739 of donations, operating income, and interest not explicitly intended for staff. Before April 2010, the Gift Fund policies and procedures did not address the Gift Fund's staff development subaccounts, including their intended purpose, resulting in inconsistencies in recording donations, questions as to eligible expenses, and allegations of Gift Fund mismanagement made by two former Laguna Honda doctors.

Specifically, the audit found that Laguna Honda:

- Did not adequately involve the Health Commission in the monitoring and oversight of its Gift Fund.
- Included staff development subaccounts in the Gift Fund, which was originally meant only for the benefit of patients.
- Does not actively manage its Gift Fund activity, including its portfolio of stock bequests.
- Recorded donations not explicitly restricted to any specific purpose into staff-related subaccounts.
- Recorded operating income in staff-related subaccounts.
- Did not maintain documentation supporting the purpose of and restrictions on donations.
- Did not maintain supporting documentation for some Gift Fund expenditures.
- Did not obtain supervisory approval and sufficient supporting documentation for some expenditures processed.
- Coded Gift Fund expenditures inconsistently to various subaccounts, and did not code some invoices at all.
- Has a Gift Fund policy that does not address specific allowable expenditures.

Recommendations

The audit report includes 20 recommendations for Laguna Honda to improve the administration of the Gift Fund. Specifically, Laguna Honda should:

- Work with the Health Commission to implement detailed policies that ensure the Gift Fund complies with all applicable City codes.
- Actively manage its Gift Fund activity including its investments.
- Reclassify all Gift Fund amounts incorrectly recorded in staff development subaccounts into patient-related subaccounts.
- Discontinue recording operating income as Gift Fund donation revenue.
- Develop procedures for properly acknowledging and classifying all Gift Fund donations.
- Develop controls to ensure that all Gift Fund expenditures conform to prescribed payment policies.
- Indicate in its Gift Fund policy the specific eligible expenditures allowed.

Copies of the full report may be obtained at:

Controller's Office • City Hall, Room 316 • 1 Dr. Carlton B. Goodlett Place • San Francisco, CA 94102 • 415.554.7500
or on the Internet at <http://www.sfgov.org/controller>

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CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Monique Zmuda
Deputy Controller

November 22, 2010

Dr. Mitchell Katz
Department of Public Health
101 Grove Street
San Francisco, CA 94102

Dear Dr. Katz:

The Controller's Office, City Services Auditor (CSA), presents its audit report of the Laguna Honda Hospital Gift Fund (Gift Fund). The audit objectives were to determine whether Laguna Honda Hospital and Rehabilitation Center (Laguna Honda) administered the Gift Fund in accordance with the San Francisco Administrative Code, and whether Laguna Honda accurately recorded and classified Gift Fund donations and related expenditures.

The audit found that Laguna Honda did not adequately involve the Health Commission in the monitoring and oversight of its Gift Fund, does not actively manage its Gift Fund activity, incorrectly recorded in the Gift Fund's staff development account some donations intended for patients, and did not always maintain sufficient supporting documentation for both Gift Fund donations and related expenditures.

The audit report includes 20 recommendations for Laguna Honda to improve its administration of the Gift Fund, including its processes for receiving and recording Gift Fund donations and related expenditures.

Laguna Honda's response to the audit is attached as Appendix A. CSA will work with Laguna Honda to follow up on the status of the recommendations made in this report.

We appreciate the assistance and cooperation that your staff provided to us during the audit.

Respectfully submitted,

Tonia Lediju
Director of Audits

cc: Mayor
Board of Supervisors
Civil Grand Jury
Budget Analyst
Public Library

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LIST OF ABBREVIATIONS AND ACRONYMS

BOS	Board of Supervisors
CFO	Chief Financial Officer
CSA	City Services Auditor
DPH	Department of Public Health
FAMIS	Financial Accounting and Management Information System
JCC	Joint Conference Committee

INTRODUCTION

Audit Authority

The City Charter provides the Controller, City Services Auditor (CSA), with broad authority to conduct audits. This audit was conducted under that authority.

Background

The Laguna Honda Hospital Gift Fund is a restricted fund established for the general benefit and comfort of patients

Laguna Honda Hospital and Rehabilitation Center (Laguna Honda) is a skilled nursing and rehabilitation center owned and operated by the Department of Public Health (DPH) of the City and County of San Francisco (City). Laguna Honda is one of the largest skilled nursing facilities in the United States, providing services to 780 residents. Its therapeutic services include rehabilitation, activity and vocational programs.

Laguna Honda provides and supports the basic care of its residents, also known as patients. To enhance the quality of life of residents beyond the basic care provided by the City at the hospital, the San Francisco Administrative Code (Section 10.100-201 Public Health Gift Funds) established the Laguna Honda Hospital Gift Fund (Gift Fund) for the general benefit and comfort of its patients. This restricted fund is available neither to support the minimum obligation of the City to operate the hospital nor to fund routine City expenditures; rather, the fund benefits residents in general.

The Gift Fund included separate accounts for patient care and for staff development

According to Laguna Honda's website, the Gift Fund contained separate accounts established to support either resident care or staff development. Donations to the gift fund can be designated for (1) resident activities (2) hospice care, (3) support for nursing staff, (4) support for medical staff or (5) support for all other hospital departments such as administration or operations.

The resident Gift Fund provides for a range of amenities that expand personal choices and integrate Laguna Honda residents into the broader civic life of San Francisco. The fund underwrites initiatives such as the presentation of cultural events and group transportation for day trips throughout the city. It also funds personal necessities such as clothing and toiletries as well as books and computers. The staff development Gift Fund provides support for training programs such as meals at staff retreats, small gifts to acknowledge exemplary service, and subscriptions to

trade journals. Until recently, both the patient subaccounts and the staff development subaccounts were maintained under the Gift Fund.

Allegations of mismanagement of the Gift Fund have been reported to various agencies.

In recent months, the public and media have raised concerns regarding the management of the Gift Fund. Two doctors previously employed at Laguna Honda alleged mismanagement of the Gift Fund. Various reports of the allegations were sent to different agencies, including the San Francisco Ethics Commission, Attorney General's Registry of Charitable Trusts, the San Francisco Health Commission, Citizens' General Obligation Bond Oversight Committee, and the San Francisco Civil Grand Jury. The allegations included appropriation of charitable donations for staff support, appropriation of interest earned from donations intended for patients, business income and fees claimed as donations and the inappropriate use of funds from the patient account for staff expenses. For example, the doctors alleged that Laguna Honda deposited monetary donations intended for patients into the staff development account, mismanaged and fully depleted the Gift Fund, inappropriately allocated interest earned from the Gift Fund to the staff development account, and inappropriately recorded rental fees paid to Laguna Honda as donations to the staff development account.

Objectives

The objectives of this audit were to determine whether:

- Laguna Honda has adequate internal controls and policies and procedures to administer its Gift Fund.
- Gift Fund expenditures are made in accordance with the San Francisco Administrative Code and are accurate, properly classified, and reported in the proper accounting period.
- Gift Fund donations are accurately reported, properly classified, and adequately described.

Scope and Methodology

The purpose of this audit was to determine whether Laguna Honda administered the Gift Fund in accordance with the San Francisco Administrative Code. The audit covered the period from November 1, 2004, through June 30, 2010.

To conduct the audit, the audit team:

- Reviewed the applicable policies and procedures and municipal codes governing the administration of the Gift Fund.
- Reviewed the adequacy of Laguna Honda's procedures for collecting, recording, and reporting its donations from the public.
- Reviewed on a sample basis Gift Fund expenditures and related supporting documentation to determine whether Laguna Honda used funds in accordance with the Administrative Code and to ensure that the expenditures are patient related.
- Reviewed all donations to staff subaccounts to determine whether they were properly designated for staff purposes.

Sample selection process

The audit team used a sample selection process to test donations collected and expenditures made from the Gift Fund during the six year audit period. All donations to the Gift Fund's staff development subaccounts during the six year audit period were selected to determine whether donations intended for patients were erroneously recorded to staff development subaccounts.

The sample size for expenditures was selected based on a statistical sampling model. After obtaining a data extract of all expenditures for each fiscal year under audit, the audit team applied the statistical sampling model to the entire population of more than 2,000 expenditures for the audit period to determine the sample size. The audit team then used the ratio of each fiscal year's population to the total to obtain each year's sample. The actual sample was chosen using systematic sampling. In this case, a random number was used as the starting point and items were chosen for testing by using a predefined interval as determined by dividing the total fiscal year's population by the total sample size. Using this method, the audit team selected 324 expenditures for review.

This performance audit was conducted in accordance with generally accepted government auditing standards. These standards require planning and performing the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. We believe that the evidence obtained

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Laguna Honda Hospital Needs to Improve the Management of Its Gift Fund

provides a reasonable basis for the findings and conclusions based on the audit objectives.

CHAPTER 1 – Laguna Honda Needs to Improve its Administration of the Gift Fund

Summary

Laguna Honda does not have sufficient detailed policies and procedures to properly and effectively manage the donations it receives and the expenditures it generates for the Gift Fund and does not adequately involve the Health Commission in the monitoring and oversight of the Gift Fund. Further, Laguna Honda management substantially revised its Gift Fund policy on two occasions, but did not request that the revisions be approved by the Health Commission. Finally, Laguna Honda does not actively manage its Gift Fund to ensure that its bequests remain viable and provide for the greatest return on its investments, nor does it actively plan for the sustainability of its Gift Fund.

Finding 1.1

Laguna Honda did not adequately involve the Health Commission in the monitoring and oversight of its Gift Fund.

All Gift Fund expenditures require the approval of the Public Health Commission

The San Francisco Administrative Code (Administrative Code), Section 10.100-201– Public Health Gift Funds, governs the establishment, use, exceptions to and administration of the Gift Fund. The Administrative Code specifically states that, “all expenditures from the fund require the approval of the Public Health Commission”, now called the San Francisco Health Commission (Commission). According to the Gift Fund’s original policies and procedures, which govern the use and administration of the Gift Fund (Facility Policy 45-01, dated September 1, 1993), the Commission’s approval of expenditures appeared to be accomplished through a Gift Fund Management Committee, composed of at least three employees and one patient. Further, the policy states that the Gift Fund Management Committee’s chairperson is to prepare quarterly expenditure statements for presentation to Laguna Honda’s executive administrator, and to the Joint Conference Committee (JCC), a body that includes the Health Commission and leaders of Laguna Honda and San Francisco General Hospital. However, according to Laguna Honda’s chief financial officer (CFO), the JCC minutes for the last ten years do not reflect the receipt of any quarterly expenditure statements for the Gift Fund.

Further, Laguna Honda made two substantial revisions to its Facility Policy 45-01 eliminating the quarterly expenditure statements to the JCC, and eliminating the Gift Fund Management Committee, without requesting Commission approval of those changes. These revisions were established as policy and implemented on December 2, 2004 and April 15, 2010, respectively. Without the Gift Fund Management Committee's review of expenditures or the requirement for quarterly expenditure statements to the JCC, the Administrative Code requirement that the Health Commission must approve all expenditures was effectively eliminated from the Gift Fund policy, leaving Laguna Honda out of compliance with this Administrative Code requirement.

A similar finding was identified by the California Department of Health's Licensing and Certification Division (Division). As a result of a complaint regarding the revisions to Laguna Honda's Facility Policy 45-01, the Division performed an investigation and identified a deficiency¹. As stated within the Division's Summary Statement of Deficiencies:

Proposed revisions to facility policy LHPP 45-01 (the gift fund policy) were circulated without a cover memo including the required elements. The revised policy was adopted without first ensuring that it was consistent with the city administrative code, which required that the gift fund expenses be approved by the city health commission. The deficient practices circumvented the facility's own requirements for changing its policies.

All Gift Fund donations and expenditures must be reported to the Board of Supervisors

The Administrative Code further requires that the Department of Public Health (DPH):

Shall, on an annual basis, within the first two weeks of July, report in writing to the Board of Supervisors (BOS) a listing of all gifts, donations, and contributions of money or personal property of less than \$25,000 in value or amount. The report shall list the nature, amount, and disposition of these gifts, donations, and contributions.

¹ As of November 10, 2010, Laguna Honda Hospital has disputed the finding and related citation with the California Department of Health's Licensing and Certification Division. No response has been received from the Division.

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The audit team obtained a sample of the annual reports that DPH submits to the BOS, and to the Commission. The reports record total Department-wide gifts and expenditures at a high level. Although the submission by DPH of a summarized annual report of gifts and expenditures satisfies the requirement of an annual report to the Board of Supervisors, it is not an acceptable document to satisfy the requirement for Commission approval, as it neither provides the Commission with a detailed expenditure transaction report nor an opportunity to timely question individual Gift Fund expenditures.

In fiscal year 2006-07, Laguna Honda's Gift Fund financial records show an adjustment of \$176,481 for which there is no record in the annual report presented to the Board of Supervisors and Health Commission. According to Laguna Honda's CFO, who brought this adjustment to the audit team's attention during fieldwork, this adjustment appeared to be requested by the Office of the Controller to correct a negative balance related to data conversion from the previous financial system to the current system. Laguna Honda posted an entry to transfer funds from the Gift Fund to a Laguna Honda capital project fund, and the Office of the Controller approved the adjustment, with the reason for the adjustment documented in the City's Financial Accounting and Management Information System (FAMIS) as "to clear the cash deficit." Laguna Honda and the Office of the Controller arranged to reverse this adjustment to return \$176,481 to the Gift Fund in fiscal year 2009-10 from Laguna Honda's operating funds.

However, the return of funds did not include potential interest earned had the \$176,481 remained in the Gift Fund. Laguna Honda should perform a calculation of the potential interest earned basing the interest on that rate which can be identified as average earnings from fiscal years 2006-07 through 2009-10 by the Office of the Treasurer and Tax Collector.

Laguna Honda's CFO needs to work with the Health Commission to obtain their expenditure approval in an efficient manner to enable the Commission to maintain Gift Fund oversight. The Commission may consider delegating the initial approval to management, such as the chief financial officer, chief executive officer (CEO), and chief operating officer (COO), but should maintain control over

the Gift Fund by requiring quarterly reports of detailed expenditures for approval. It might also consider reinstating the Gift Fund Management Committee.

Currently, Laguna Honda's Gift Fund policy states that at the beginning of the fiscal year the CFO will provide to the Executive Administrator, and applicable supervisor, the expenditure budget for each of the subaccount codes so that activities and budgetary strategies can be established. The policy should further state that the budget for each subaccount should include detailed recurring expenditures, such as planned patient outings including transportation expenses, event tickets and meals, and hospice supplies, to be approved by the Commission. Any expenditure that deviates from the budget should be submitted to the Commission for approval before the expenditure is paid.

Recommendations

Laguna Honda should:

1. Revise and implement complete Gift Fund policies and procedures for Facility Policy 45-01 that comply with all applicable City codes and financial operating standards and obtain the approval of the Health Commission for the revision.
2. Work with the Health Commission to formulate an approval process for approval of expenditures. Consider delegating the initial approval responsibility to management (CFO, CEO, and COO), but require submission of quarterly detailed reports to the Commission.
3. For each Gift Fund subaccount, submit to the Commission for approval at the beginning of each fiscal year a detailed budget that lists recurring expenditures. For any expenditure not in the approved budget, Laguna Honda should request Commission approval prior to payment.
4. Estimate the potential interest that would have been earned on a principal balance of \$176,481 from fiscal year 2006-07 to 2009-10, using an average return on investment rate identified by the Office of the Treasurer and Tax Collector and transfer the estimated amount to the Gift Fund from Laguna Honda's operating fund.

Finding 1.2

Laguna Honda included subaccounts for staff development in its Gift Fund originally meant only for the benefit of patients.

Laguna Honda did not follow sound business practices when it instituted subaccounts for, and included donations received for staff development as part of the Gift Fund. By doing so, Laguna Honda added a new purpose to a fund established by law as having a different purpose. The Administrative Code Section 10.100-201 states:

All cash received and accepted hereunder, for the general benefit and comfort of patients of the Laguna Honda Hospital shall be deposited in a special fund known as the 'Laguna Honda Hospital Gift Fund', a public trust.

According to Laguna Honda's current CFO, about six years ago separate subaccounts for hospital staff development and education were created in the City's FAMIS under the Gift Fund to receive donations from staff and other agencies, which paid for staff training events, and acknowledgement gifts. By creating these subaccounts in the Gift Fund, which under the Administrative Code is for the benefit of patients only, Laguna Honda increased the perception that patient funds were being misused.

Corrective Action

In a letter to the director of DPH from the City's Controller, dated May 21, 2010, the Controller recommended to the director of DPH that the staff funds should be removed from the patient's Gift Fund and should be accounted for under a separate account for employee training and development. Subsequently, Laguna Honda removed the staff development funds from the Gift Fund, effective July 1, 2010.

Recommendation

5. Laguna Honda should ensure that it maintains in its Gift Fund only donations intended to benefit patients, as defined in the San Francisco Administrative Code Section 10.100-201.

Finding 1.3

Laguna Honda does not actively manage its Gift Fund activity, including its portfolio of stock bequests.

Laguna Honda does not actively manage its portfolio of stock, received as bequests, which is part of the Gift Fund

The Gift Fund includes a stock portfolio valued at \$835,307 as of June 30, 2010

and was valued at \$835,307 as of June 30, 2010. The portfolio consists of original stock certificates maintained in the Office of the Treasurer and Tax Collector's vault, in addition to electronically issued stock held by a custodian. According to Laguna Honda's CFO, the portfolio is updated at the end of the fiscal year to obtain the market value for reporting purposes, but otherwise remains untouched. As these investments make up approximately half of the Gift Fund's total assets, they should be actively monitored by experienced personnel to ensure the best possible return is gained by the Gift Fund. These assets may lose value over time, but with active management some of the holdings may be sold as allowed by the Administrative Code, Section 10.50 et seq. upon approval by the Commission.

Additionally, Laguna Honda has not managed the use of Gift Fund expenditures in relation to the amount of income earned to ensure the sustainability of the Gift Fund. From fiscal year 2004-2005 through fiscal year 2009-2010, Gift Fund expenditures totaled \$1,789,062, while total income from donations, interest, and dividend income earned totaled \$1,356,664, resulting in a decline in the principal Gift Fund balance of \$432,398. While the audit found no legal or other requirement for City funds to be managed to ensure sustainability nor does it appear that the Gift Fund is immediately at risk of depletion, it is the audit team's recommendation that Laguna Honda should continue to plan for and maintain the Gift Fund to benefit its patients for as many years as feasible.

Exhibit 1 represents the Gift Fund activity, including income and expenditures, over the previous six fiscal years. The fund balance is composed of cash, receivables, and investments.

EXHIBIT 1 Summary of Gift Fund Activity Over Six Years

Fiscal Year	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Beginning Fund Balance	2,149,336	2,074,839	1,962,758	1,742,277	1,749,880	1,627,198
Donations	128,423	86,675	189,207	138,846	65,282	90,336
Income and adjustments	19,939	73,598	46,857	164,451	146,113	206,937
Disbursements	(222,859)	(272,354)	(456,545)	(295,694)	(334,077)	(207,533)
Ending Fund Balance	2,074,839	1,962,758	1,742,277	1,749,880	1,627,198	1,716,938

Source: FAMIS reports

Recommendations

Laguna Honda should:

6. Work with the Office of the Treasurer and Tax Collector to consider methods to actively manage the portfolio of stock in the Gift Fund.
7. After discussion with the Office of the Treasurer and Tax Collector regarding the stock portfolio, implement policies and procedures to establish return on investment criteria and other parameters regarding the invested funds, including periodic reports to the Health Commission.
8. Quarterly, assess the state of the Gift Fund. Management should plan and budget expenditures to ensure the Gift Fund remains solvent in the future.

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CHAPTER 2 – Laguna Honda Needs to Strengthen Gift Fund Policies and Procedures on Donations

Summary

Laguna Honda incorrectly recorded a total of \$151,739 in donations, operating income, and interest to the Gift Fund's staff development subaccounts instead of to the patient subaccounts and operating income. The majority of this amount, \$127,700, has been returned to the patient subaccounts after an internal review of Gift Fund transactions by Laguna Honda staff. In addition, Laguna Honda did not always maintain proper documentation of its donations supporting the purpose and intent of the donations, nor did it always send formal acknowledgement letters to its donors.

Finding 2.1

Some contributions to the Gift Fund were recorded in staff development subaccounts.

Patient contributions were incorrectly recorded for staff development

From November 1, 2004, through June 30, 2010, Laguna Honda incorrectly recorded \$151,739 into staff-related subaccounts of which \$127,700 has been corrected and returned to patient related subaccounts. The audit team reviewed contributions in all staff-related subaccounts totaling \$192,483. The amount recorded incorrectly was comprised of:

- \$37,102 representing two checks specifically designated to reimburse patient related activities
- \$17,750 of checks mostly from filming and production companies
- \$5,430 in operating income recorded as donations to staff accounts
- \$1,200 recorded to staff-related subaccounts, but amounts were not explicitly designated as staff-related
- \$90,257 in accumulated interest misallocated to staff subaccounts.

Corrective Action

Prior to the onset of audit fieldwork, the Laguna Honda Accounting section performed an internal review of donations and expenditures for both patient and staff-related subaccounts in the Gift Fund. As a result of the review, Laguna Honda has corrected its records and

returned to patient accounts two checks specifically designated to reimburse patient related activities for \$37,102, amounts from the staff-related account that were not explicitly designated as staff-related for \$600, and accumulated interest misallocated to staff subaccounts for \$89,998, totaling \$127,700.

Interest was misapplied to staff subaccounts.

The misallocation of interest of \$90,257 occurred due to the two checks totaling \$37,102 which had been misapplied to staff subaccounts, and thus disproportionately increased the allocation of interest to those accounts. The initial interest allocated to all the Gift Fund accounts totaled \$542,744. According to Laguna Honda's CFO, this consisted of several years of accrued interest which Laguna Honda had not allocated to Gift Fund subaccounts on an annual basis.

Laguna Honda attempted to correct the interest allocation to return the misallocated interest to the proper accounts. However, a recalculation performed as part of the audit disclosed several variances between what should be recorded into patient subaccounts and that which was recorded by Laguna Honda's Accounting section. Due to the methodology employed by the Accounting section, from approximately \$100 to \$38,000 was misallocated between patient subaccounts. The audit's recalculation also disclosed an additional amount due to the patient Gift Fund from staff-related subaccounts totaling \$259. While the amount due from staff subaccounts is immaterial, all interest calculations must be performed properly with sufficient oversight to avoid erroneous postings.

Contributions from Filming and Production Companies were recorded as staff-related

Further, the \$17,750 amount incorrectly recorded in staff-related subaccounts consisted of four checks in the sample of contributions tested totaling \$14,750, and an additional \$3,000, that were received from filming and production companies as site location fees. According to San Francisco Film Commission personnel, other than a permit fee that the Film Commission collects from companies which film on City grounds, all filming on City property is free of charge. Therefore, while these payments for site location fees would appear to be operating income, they are considered donations because no amount was due to Laguna Honda for filming on location.

Although Laguna Honda recorded these film company

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donations for staff development use, the supporting documentation provided for the checks did not specifically identify the intent of the donation for staff or patient purposes. According to Laguna Honda's CFO, the Accounting section has historically recorded contributions from filming companies for staff development purposes. However, the audit team contacted two of the filming companies from which donation checks were received and neither company could confirm that the donations were intended for staff development purposes. Since Laguna Honda's policy is to record all donations into patient related subaccounts unless the donation is specifically identified as related to staff development, the film company donations of \$17,750 should be returned to patient-related subaccounts.

Exhibit 2 represents the staff development Gift Fund activity reviewed by the audit team, including transactions determined to be correctly recorded, and incorrectly recorded. The exhibit also details the total amounts since corrected by Laguna Honda and that which remains uncorrected as of June 30, 2010.

EXHIBIT 2 Staff Development Gift Fund Activity

Type	Correctly Recorded	Incorrectly Recorded	Unknown	Total	Corrected/ Reversed	Pending Correction
Earned Interest	\$10,228	\$90,257		\$100,485	\$(89,998)	\$259
Filming/Production Company Donations		17,750*		17,750*		17,750*
LH Volunteer's Inc. Reimbursements		37,102		37,102	(37,102)	
Public Donations		1,200		1,200	(600)	600
Operating Income		5,430		5,430		5,430
Other Staff-Related	27,091		\$3,425	30,516		
Total	\$37,319	\$151,739	\$3,425	\$192,483	\$(127,700)	\$24,039
	19.39%	78.83%	1.78%	100%	84.16%	15.84%

* Note: Includes an additional finding of \$3,000 in Filming/Production Company donations that was identified during the audit team's review of accounting entries prepared by Laguna Honda, thus increasing the total Filming/Production Company donations incorrectly recorded from \$14,750 to \$17,750.

Source: Auditor's summary of test results; selections provided by Laguna Honda staff.

Recommendations

Laguna Honda should:

9. Return all remaining Gift Fund donations and interest of \$18,609 not specifically identified as restricted to staff subaccounts into patient subaccounts.
10. Return operating income of \$5,430 to Laguna Honda's operating account.

Finding 2.2

Operating income earned was recorded in staff development subaccounts.

As discussed in Finding 2.1, Laguna Honda recorded as Gift Fund donations in staff development subaccounts several items identified to be operating income. A total of \$5,430 in items representing operating income was recorded in staff development subaccounts. The amounts received were identified as payment for services rendered, facilities used, or for invoiced billings. According to Laguna Honda's CFO, the Accounting section has historically recorded these transactions as donations to staff-related subaccounts.

The recording of operating income as donations results in an overstatement of donation revenue and the understatement of operating revenue generated by the City. Further, this operating revenue was recorded into staff-related accounts, not patient accounts, with no documentation to support the reason they were considered staff development donations.

Recommendation

11. Laguna Honda should discontinue recording operating income as donation revenue.

Finding 2.3

Some donations to staff development accounts lacked documentation supporting purpose and restriction of the donation.

Documentation supporting the donor's intent for some staff donation was not maintained

Laguna Honda did not always maintain documentation supporting the intended beneficiary of Gift Fund donations it designated as staff-related. As a result, Laguna Honda cannot properly support its recording of these transactions. No principal document provided support that detailed the intent, amount, date and donor of each donation;

documentation was limited to receipt tag memos and copies of checks, which did not indicate any essential information, nor the approval of the acceptance of the donation. As a result of the lack of documentation provided, the audit team was not able to conclude whether several transactions were properly recorded.

The lack of documentation supporting the restriction of specific donations may result in improper recording and use of contributed funds with respect to the donor's intent. Procedures should document that donations are to be recorded in the proper period in accordance with any restrictions. Records should be kept to show the appropriate acknowledgement to the donor indicating the restriction placed on the donation was sent. In addition, any releases of donor-placed restrictions should be documented.

When donations carry purpose restrictions, whether for staff or patient use, the amounts should be recorded as such. Without such documentation supporting the restrictions of donations, there is no method to mitigate the risk of potential incorrect financial reporting by not correctly crediting the accounts based on donor's intent. Laguna Honda's Gift Fund policy dated April 15, 2010 does not address procedures for recording donations, but prior versions of the policy included a procedure to send the donor an acknowledgement letter. This acknowledgement letter could be used as documentation of the purpose of the donation and of the expected uses, and should be maintained with any original documentation supporting the purpose and expected use of the donation that arrived with the donation check.

Instead of using receipt tags, Laguna Honda should consider the development and use of a donation receipt form detailing purpose of donation, amount, date and fund. Laguna Honda should file these forms by donor name with a copy of the actual donation check or device and signed acknowledgement letter. Additionally, Laguna Honda should ensure this is completed by responsible staff personnel and reviewed and approved by a designated supervisor. Laguna Honda should also use this form as a checklist to ensure each step in the process of receiving a donation is completed.

Laguna Honda should maintain a schedule of its donations, which should include the amount, term, dates of receipt, reporting requirements, restrictions, and other pertinent information. The restriction on each donation should explicitly state the purpose and intent of the donation and should leave no room for ambiguity. Additionally, this summary schedule should be used to track the uses of each donation to ensure they are being released in line with donor's intents.

Maintaining documentation for donations and uses which identify the intended purpose is essential to the reporting process. This information might be especially useful in the event that a grantor requests an accounting of his or her donated funds or that disclosure of this information is needed at some future point. This will also help to ensure governmental accountability.

Recommendations

Laguna Honda should:

12. Develop detailed procedures for receiving and recording Gift Fund donations and update their Gift Fund policy accordingly to more readily determine the intended purpose and subsequent recording of the donations and appropriate uses.
13. Send acknowledgement letters for all donations received. Further it should consider the use of a donation receipt form.
14. Maintain appropriate documentation files to support all donation purposes and uses.

CHAPTER 3 – Laguna Honda Needs to Strengthen Gift Fund Policies and Procedures on Expenditures

Summary

Laguna Honda’s policies and procedures do not address the specific expenditures that are allowable and appropriate for Gift Fund use. Without specific policies and procedures, the risk of improper expenditures being paid out of the Gift Fund increases. Laguna Honda did not always maintain sufficient documentation of Gift Fund expenditures, did not always consistently approve its expenditures, and did not consistently charge similar expenditures to the same subaccounts. However, for the sample of expenditures reviewed, the audit team found that Laguna Honda charged patient Gift Fund expenditures to patient subaccounts and charged staff development Gift Fund expenditures to staff development subaccounts.

Finding 3.1

Laguna Honda did not maintain documentation for some Gift Fund expenditures.

Evidence for 35 percent of expenditures selected for review was not provided

Laguna Honda did not provide supporting documentation for 35 percent of the 324 sample expenditure transactions selected for testing. Laguna Honda provided only 212 (65 percent) of the requested supporting documents for each transaction; it could not locate documentation for the remaining 112 records. Staff of Laguna Honda’s Accounting section explained that the lack of documentation resulted from various Sunshine Ordinance² requests, which caused the misplacement of documents, and staff turnover that resulted in difficulties in finding documents. Nonetheless, the San Francisco Administrative Code, Section 8, requires City departments to retain financial records for five years.

Although the audit team could not review the missing supporting documentation, each of the 112 expenditure transactions is documented in the City’s accounting system with a short description and a vendor name, which in some cases helps identify the purpose of the expenditure. A review of those short descriptions and vendor names for the 112 expenditures revealed that many were similar to other recurring expenditures for which supporting documentation was provided, such as therapeutic activities, bus trips, and

² The City’s Sunshine Ordinance, established in Chapter 67 of the San Francisco Administrative Code, ensures that deliberations of commissions, boards, councils and other agencies of the City are conducted before the people and that City operations are open to the people’s review.

transportation expenditures.

Recommendations

Laguna Honda should:

15. Improve its filing system and document the procedures in its accounting manual so employees are familiar with the filing process.
16. Retain all documents in accordance with an established record retention policy specifying which records should be retained permanently, and which records should be kept only for a given period before being destroyed.

Finding 3.2

Gift fund expenditures did not always have supervisory approval or sufficient supporting documentation.

Supporting documentation for several expenditures tested was insufficient to process payments.

Of the 212 expenditures reviewed from the six fiscal years under audit, 28 instances (13 percent) were found where the approval of expenditures was not consistent with other similar transactions or did not have supervisory approval at all. In 17 instances (8 percent) the supporting documentation did not identify the purpose of the expenditure. Further, in 6 instances (3 percent) vendors did not provide invoices for payment. Finally, in 2 instances the stamped signature of Laguna Honda's Executive Administrator was used to document approval of the expenditure. While this may be an efficient way of demonstrating the approval of documents that have been previously reviewed, Laguna Honda has not consistently used the stamped signature. In the audit's review of expenditures, only two instances of the use of the stamped signatures were found. The undefined use of the stamp may lead to misuse, which could include the signing of unauthorized checks or legal documents.

Current Laguna Honda policies and procedures require that before any Gift Fund expenditure is incurred, it must be approved by the applicable supervisor. The policy also requires supporting receipts and invoices to be attached to an employee reimbursement form before payment processing. The current Accounting section staff cannot explain why some payments were processed without the proper approval and supporting documents as these employees were not employed with the Laguna Honda Accounting section when the expenditures occurred. Without the proper approvals or adequate supporting documentation, there is increased risk that improper expenditures will be paid from the Gift Fund.

Recommendation

17. To ensure that all expenditures are valid and appropriate, the Laguna Honda Accounting section should verify that all expenditures are approved by the appropriate personnel, and are supported by adequate documentation before payment processing. If invoices are submitted without supervisory approval, the Accounting section should reject the invoice for payment.

Finding 3.3

Laguna Honda coded Gift Fund expenditures inconsistently to various subaccounts, and did not code some invoices at all.

Expenditure coding was inconsistent, or not apparent on supporting documentation.

Laguna Honda has no policies and procedures which govern the recording of Gift Fund transactions against 14 of the 17 patient-related Gift Fund subaccounts. Of the sample of 212 expenditures reviewed by the audit team, Laguna Honda coded similar Gift Fund expenditures to varying subaccounts in at least 18 instances, and did not note any subaccount on an invoice in 48 instances. If subaccounts are not noted on the invoices and supporting documentation by appropriate personnel prior to submission to accounting for payment, then the risk increases that improper accounts will be charged and funds for specific purposes may be misspent.

As of June 30, 2010, the Laguna Honda Gift Fund maintained 22 active subaccounts including four staff-related accounts, 17 patient related accounts and one earned interest holding account. The patient accounts vary in title and are maintained for various purposes including patient outings, hospice care, activity therapy and specific hospital wards. The current Gift Fund policy and procedures designate the specific subaccount codes to charge general gift fund expenditures for three patient subaccounts, in addition to the patient miscellaneous subaccount, but does not address the circumstances where the remaining 14 patient subaccounts would be charged. Laguna Honda's CFO explained that the patient subaccounts could be charged interchangeably based on the subaccounts' available balances.

The inconsistent recording of expenditures across Gift Fund subaccounts results in inaccurate and inefficient financial reports, in addition to a lack of transparency on the purpose of each subaccount. Accurate financial reports are necessary for effective monitoring, oversight, and budgeting.

Laguna Honda should retain only those subaccounts that are active and segregate restricted and unrestricted patient funds.

As the current accounting staff are not the staff that were in place at the time these expenditures were processed, and cannot explain the reasons the specific subaccounts were charged, the audit team was not able to determine the cause of the discrepancies, nor determine in many cases, whether the subaccounts charged were incorrect. However, for the expenditures reviewed, the audit team found that Laguna Honda charged patient expenditures to patient Gift Fund accounts and charged staff development expenditures to staff development Gift Fund accounts.

Recommendations

To ensure that expenditures are properly recorded in the appropriate account, Laguna Honda should:

18. Apply subaccount codes consistently based on the type of expenditure, retain only those subaccounts that are active, and segregate restricted and unrestricted patient funds. Ensure the Gift Fund policies and procedures include instructions for the purpose and use of each subaccount.
19. Ensure all account codes are accurately reported on the expenditure invoices by the approving department heads and/or supervisors prior to payment processing. Obtain written explanations for any modifications to the account codes approved on the invoices as submitted for payment processing.

Finding 3.4

Laguna Honda's Gift Fund policy does not address the specific expenditures that are allowable and appropriate for Gift Fund use.

The Gift Fund policy does not define specific allowable expenditures.

Laguna Honda's Gift Fund policy does not clearly define the eligible and appropriate expenses for the Gift Fund so that it can manage the Fund's substantial expenditures to plan for the sustainability of the Gift Fund. The Gift Fund policy includes the subaccount codes to be used for such general expenditures as community outings and bus trips, dining charges including charges to the Nutrition Department, movies, concerts, holiday celebrations, special events and other types of entertainment. However, other recurring expenditures such as newspaper subscriptions, transportation charges, and sporting event tickets are not

addressed by the policy. As the Gift Fund policy states that the chief financial officer will annually provide an expenditure budget to the executive administrator and applicable supervisors, the recurring budgeted expenditures are known and should be included in the policy's list of eligible, appropriate expenditures to decrease the risk of ineligible expenses being charged to the Gift Fund.

Neither the Administrative Code, nor the Gift Fund policy limits the amount or type of expenditures that can be paid from the Gift Fund. As noted in Chapter 1, the Administrative Code, Section 10.100-201, only states that the Gift Fund is "...for the general benefit and comfort of patients of the Laguna Honda Hospital..." and the Gift Fund policy notes the general types of expenditures allowed. Therefore, to gain a general understanding of how comparable institutions use their Gift Funds, if any, the audit team researched other similar skilled nursing facilities in California to survey, and selected five large (190 -1200 beds) facilities owned by a public entity (four State-owned and one county-owned).

Directors and/or staff at these five selected skilled nursing facilities indicated that all of the facilities maintain funds for donations for patients. Several of these facilities have formal written policies that govern the use and administration of gift funds. These policies specify allowable expenditures, types of funds that may be held, and when to use any operating funds for specific resident events.

While the audit team was not able to obtain the specific policies in place from the State facilities as the documentation was categorized as "internal," through discussions with facility personnel regarding the expenses incurred by gift funds, it was noted each facility's policy prescribed in detail allowable and prohibited gift fund expenditures. The policies included guidelines over expenditures for food for patients, food for staff, ward events, facility-wide events, medical supplies, and patient excursions. It was also noted that only one location maintained staff-related funds and expended them for staff purposes.

The methods employed to administer gift funds at comparable facilities appear to be significantly more structured than those of Laguna Honda, which strictly define the types of allowable expenditures. Therefore, to avoid internal or external misunderstandings on what is or is not an eligible Gift Fund expenditure, Laguna Honda and the Commission must decide upon and clearly document in the Gift Fund policy allowable expenditures in detail.

Recommendation

20. Laguna Honda should indicate in its Gift Fund policy the specific allowable expenditures to be charged under each Gift Fund subaccount.

APPENDIX A: DEPARTMENT RESPONSE

City and County of San Francisco

Department of Public Health



Gavin Newsom,
Mayor

MEMORANDUM

Date: November 19, 2010

To: Tonia Lediju, Director of Audits, Controller's Office

Through: Mitch Katz, MD, Director of Public Health

From: Gregg Sass, Chief Finance Officer, Department of Public Health
Mivic Hirose, Executive Administrator, Laguna Honda Hospital *Gregg Sass*

Subject: Gift Fund Audit

Thank you for your comprehensive audit of the Laguna Honda Gift Fund. We are particularly appreciative of the audit because it definitively ends any question about whether the money donated for patient benefits were used strictly for patient benefits. As you state on page 19, *for the sample of expenditures reviewed, the audit team found that Laguna Honda charged patient Gift Fund expenditures to patient subaccounts and charged staff development Gift Fund expenditures to staff development subaccounts.* The audit also clearly eliminates any question whether the Gift Fund was depleted, noting that there has never been a shortage of funding in the six-year period under audit.

We hope that your report will end the attacks on the Gift Fund and Laguna Honda Hospital.

We have responded in the attached document to your recommendations. As we have already reported, we no longer deposit staff development contributions to the gift fund.

With respect to your recommendation that we transfer film company payments from the staff development accounts to the patient subaccounts, we have done further research and are certain that the \$17,750 that you identified as undesignated film company payments were meant for staff development. However, since these checks did not have a specific designation written on them, we will nonetheless move them to the resident fund so that our residents can benefit from these funds. We will handle a few other small items on which our research differs from your conclusion, in the same manner.

Thank you again for helping to put these allegations to rest.

AUDIT RECOMMENDATIONS AND RESPONSES

Recommendation	Responsible Agency	Response
Laguna Honda should: <ol style="list-style-type: none"> 1. Revise and implement complete policies and procedures for Facility Policy 45-01 for its Gift Fund which follow and comply with all applicable City codes and financial operating standards and obtain the required approval of the Health Commission for the revision. 	Laguna Honda Hospital	We agree with this recommendation. We will review the policy and procedure for the Gift Fund with the Health Commissioners who serve on the Laguna Honda Joint Conference Committee and we will develop a revised policy and procedure for their review and approval. Once approved by that Committee, a final draft will be forwarded to the full Health Commission for approval.
<ol style="list-style-type: none"> 2. Work with the Health Commission to formulate an approval process for approval of expenditures. Consider delegating the initial approval responsibility to management (chief financial officer, chief executive officer, and chief operating officer), but require submission of quarterly detailed reports to the Commission. 	Laguna Honda Hospital	We agree with the need to work with the Health Commission to formulate an approval process for expenditures consistent with policy and procedure established above. We will review your suggestions with the Health Commissioners who serve on the Laguna Honda Joint Conference Committee and establish a timetable for submission of detailed reports.

Recommendation	Responsible Agency	Response
3. For each Gift Fund subaccount, submit to the Commission for approval at the beginning of each fiscal year, a detailed budget that lists recurring expenditures. For any expenditure not in the approved budget, Laguna Honda should request Commission approval prior to payment.	Laguna Honda Hospital	We concur with this recommendation, and will develop a Gift Fund Budget as part of our annual budgeting process.
4. Estimate the potential interest that would have been earned on a principal balance of \$176,481 from fiscal year 2006-07 to 2009-10, using an average return on investment rate identified by the Office of the Treasurer and Tax Collector and transfer the estimated amount to the Gift Fund from Laguna Honda's operating fund.	Laguna Honda Hospital	<p>We will work with the Treasurer Tax Collector as recommended and record any interest income for transfer to the Gift Fund. As explained in your report, the Controller's Office approved the year-end closing adjustment and did not request an interest allocation. The reclassification of funds reduced Gift Fund balances until the entry was identified by the Laguna CFO and reversed as part of the closing entries to 2009-10. Had those funds remained in the Gift Fund, they would have earned interest income.</p> <p>The reclassification in 2006-07 appears to be an oversight that was not detected by the Controller's Office or by the Laguna Honda finance division.</p>
5. Ensure that it maintains in its Gift Fund only donations intended to benefit patients, as defined in the San Francisco Administrative Code Section 10.100-201.	Laguna Honda Hospital	This recommendation has already been implemented. Effective July 1, 2010, the only funds maintained in the Gift Fund are those donated for the benefit of patients.

Office of the Controller, City Services Auditor
 Laguna Honda Hospital Needs to Improve the Management of Its Gift Fund

Recommendation	Responsible Agency	Response
6. Work with the Office of the Treasurer and Tax Collector to consider methods to actively manage the portfolio of stock in the Gift Fund.	Laguna Honda Hospital	This recommendation mirrors similar recommendations made to the Office of the Treasurer in the past. We will renew the request and ask for assistance from the Office of the Treasurer to implement this recommendation.
7. After discussion with the Office of the Treasurer and Tax Collector regarding the stock portfolio, implement policies and procedures to establish return on investment criteria and other parameters regarding the invested funds, including periodic reports to the Commission.	Laguna Honda Hospital	This recommendation mirrors similar recommendations made to the Office of the Treasurer in the past. We will renew the request and ask for assistance from the Office of the Treasurer to implement this recommendation.

Recommendation	Responsible Agency	Response
<p>8. Quarterly, assess the state of the Gift Fund. Management should plan and budget expenditures to ensure the Gift Fund remains solvent in the future.</p>	<p>Laguna Honda Hospital</p>	<p>We do not concur with this recommendation noting that there is no current or projected issue of Gift Fund solvency.</p> <p>Over the past six years, the average annual decline in the Gift fund has been \$72,066. That decline is due in part to lower levels of contributions in the past two years that coincides with the recession. Should that rate of decline continue into the future, the fund would continue for 23 years. Therefore there is no risk of insolvency that would require a quarterly review process.</p> <p>At no time has there ever been a shortage of funding that affected our ability to support the needs of our patients.</p> <p>Expenditures from the fund are determined based on the needs of our patients. And, given that the number of patients at Laguna Honda has declined by 25% consistent with the reduction in the number of available beds, we anticipate that future expenditures from the fund will also decline, and this will act to decrease the level of expenditures relative to donations.</p>

Recommendation	Responsible Agency	Response
<p>9. Return all remaining Gift Fund donations and interest of \$18,609 not specifically identified as restricted to staff subaccounts into patient subaccounts.</p>	<p>Laguna Honda Hospital</p>	<p>The \$18,609 includes \$17,750 in payments from film production companies that, while not specifically identified as restricted to staff subaccounts, were also not specifically identified as donations for patients. In our discussions with the former Administrator of Laguna Honda, these payments were among the significant funding that were the basis for establishment of the staff subaccounts. We are satisfied that these were not contributions intended for patient subaccounts. However, since these checks did not have a specific designation written on them, we will nonetheless move them to the resident fund so that our residents can benefit from these funds. For that reason, will accept this recommendation. But we must be clear that the payments were not misclassified.</p> <p>The remainder includes a proposed \$259 adjustment to an \$89,998 interest reallocation. Again, we do not believe that adjustment is correct, however, the \$259 will be adjusted together with a \$600 item that is also unclear as to its intended designation.</p>
<p>10. Return operating income of \$5,430 to Laguna Honda's operating account.</p>	<p>Laguna Honda Hospital</p>	<p>As of June 30, 2010 the staff account balance is zero and we are unable to make this adjustment. Additionally, the staff accounts now reside in the operating account at Laguna Honda, and therefore, the reclassification would have no effect. We have discussed this with the Controller's Office and they understand the issue.</p>
<p>11. Discontinue recording operating income as donation revenue.</p>	<p>Laguna Honda Hospital</p>	<p>This recommendation is associated with the \$5,430 item above. We have implemented this recommendation.</p>

Recommendation	Responsible Agency	Response
12. Develop detailed procedures for receiving and recording Gift Fund donations and update their Gift Fund policy accordingly to more readily determine the intended purpose and subsequent recording of the donations and appropriate uses.	Laguna Honda Hospital	We are making a number of improvements in policy and procedures for receiving and recording Gift Fund donations that will address this issue.
13. Send acknowledgement letters for all donations received. Further it should consider the use of a donation receipt form.	Laguna Honda Hospital	We have implemented this recommendation.
14. Maintain appropriate documentation files to support all donation purposes and uses.	Laguna Honda Hospital	Audit exceptions noted in the report were significantly associated with earlier years. There were few exceptions noted in the more recent years. We will review our current practices to strengthen our documentation consistent with this recommendation.
15. Improve its filing system and document the procedures in its accounting manual so employees are familiar with the filing process.	Laguna Honda Hospital	We will review written policy and procedures for opportunities to improve them and review those procedures with our employees.
16. Retain all documents in accordance with an established record retention policy specifying which records should be retained permanently, and which records should be kept only for a given period before being destroyed.	Laguna Honda Hospital	This is our custom and practice. The exceptions to testing that were the basis for this recommendation were not reviewed with our CFO as part of a standard audit exit conference and we are not certain that the exceptions are accurate. We were not informed of the existence of these exceptions until after issuance of the draft report.

Recommendation	Responsible Agency	Response
<p>17. To ensure that all expenditures are valid and appropriate, the Laguna Honda Accounting section should verify that all expenditures are approved by the appropriate personnel, and are supported by adequate documentation before payment processing. If invoices are submitted without supervisory approval, the Accounting section should reject the invoice for payment.</p>	<p>Laguna Honda Hospital</p>	<p>This is our custom and practice. The exceptions to testing that were the basis for this recommendation were not reviewed with our CFO as part of the standard audit exit conference and we are not certain that the exceptions are accurate. We were not informed of the existence of these exceptions until after issuance of the draft report</p>
<p>18. Apply subaccount codes consistently based on the type of expenditure, retain only those subaccounts that are active, and segregate restricted and unrestricted patient funds. Ensure the Gift Fund policies and procedures include instructions for the purpose and use of each subaccount.</p>	<p>Laguna Honda Hospital</p>	<p>We will implement this recommendation.</p>

Recommendation	Responsible Agency	Response
19. Ensure all account codes are accurately reported on the expenditure invoices by the approving department heads and/or supervisors prior to payment processing. Obtain written explanations for any modifications to the account codes approved on the invoices as submitted for payment processing.	Laguna Honda Hospital	We will implement this recommendation.
20. Indicate in its Gift Fund policy the specific allowable expenditures to be charged under each Gift Fund subaccount.	Laguna Honda Hospital	We will implement this recommendation.

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APPENDIX B: REBUTTAL TO RESPONSE

To provide clarity and perspective, the Controller's Office, City Services Auditor (CSA) Division, has prepared this response to the Department of Public Health and Laguna Honda Hospital's written response regarding the audit report. CSA sustains that the findings described in the audit report and related conclusions are complete and accurate based on the documents and correspondence provided by Laguna Honda Hospital to perform the audit.

Recommendation 16

Laguna Honda's response to recommendation 16 cites incorrect information. Recommendation 16 refers to Finding 3.1, which states that Laguna Honda did not maintain documentation for some Gift Fund expenditures because it could not provide supporting documentation for 112 of the 324 requested sample documents. Laguna Honda responded to the recommendation to retain all documents in accordance with an established record retention policy by stating that, "The exceptions to testing that were the basis for this recommendation were not reviewed with our CFO as part of a standard audit exit conference and we are not certain that the exceptions are accurate. We were not informed of the existence of these exceptions until after issuance of the draft report."

The CFO at Laguna Honda informed the audit team that her staff reported only 95 documents not provided. Since supporting documentation for two expenditures was subsequently provided to the audit team, but was not provided at the time the audit team reviewed the records on site, it is likely that Laguna Honda later found the supporting documents. In addition, whether Laguna Honda was missing documentation for 35 percent of the sample expenditures requested or 29 percent, as asserted by the CFO, is irrelevant as the finding and recommendation remain accurate.

Recommendation 17

Similarly, Laguna Honda's response to recommendation 17 is not entirely accurate. Recommendation 17 refers to Finding 3.2, which states that Gift Fund expenditures did not always have supervisory approval or sufficient supporting documentation as 28 of the sample expenditures did not have expenditure approvals consistent with other similar transactions or any approvals at all. Seventeen of the sample expenditures did not identify the purpose of the expenditure. Laguna Honda responded to the recommendation to verify that all expenditures are approved by appropriate personnel and supported by adequate documentation by stating that "The exceptions to testing that were the basis for this recommendation were not reviewed with our CFO as part of a standard audit exit conference and we are not certain that the exceptions are accurate. We were not informed of the existence of these exceptions until after issuance of the draft report."

The sample expenditures with exceptions were reviewed with Laguna Honda's CFO as the auditors reviewed them onsite. The audit manager later discussed all findings with the CFO in a phone conversation on October 25, 2010. The report draft was provided to Laguna Honda on November 3, 2010. The draft report was discussed in detail at an exit conference on November 9, 2010.