



Controller – City Services Auditor



Laguna Honda Hospital:

Needs to Improve the Management of Its Gift Fund

**Presentation to the
Joint Conference Committee
Department of Public Health
City and County of San Francisco
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City Services Auditor

- CSA conducts audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:
 - Independence, Objectivity, Competent staff and the existence of appropriate Quality Control procedures
- Basis of Audit:
 - In recent months, the public and media have raised concerns regarding the management of the Laguna Honda Gift Fund.
 - A formal whistleblower complaint was filed on 3/2/10
- As a result, five months after the complaint was filed, the Controller requested CSA perform an audit of the Laguna Honda Gift Fund.
- The report was issued on 11/22/2010.



Audit Objectives

- The purpose of this audit was to determine whether Laguna Honda administered the Gift Fund in accordance with the San Francisco Administrative Code during the period from November 1, 2004 to June 30, 2010.
- To conduct the audit, the audit team reviewed:
 - The applicable policies and procedures and administrative codes on the administration of the Gift Fund
 - The adequacy of Laguna Honda's internal procedures for collecting, recording, and reporting its donations from the public
 - On a sample basis Gift Fund expenditures and supporting documentation to determine whether Laguna Honda used funds in accordance with administrative code and to ensure that the expenditures directly benefit patients
 - All donations to staff subaccounts to determine whether they were properly designated
- The universe included over 2000 expenditure transactions, and 50 contribution transactions for the period under audit.



Gift Fund Balances

- The Laguna Honda Gift Fund is fully funded by Contributions from donors and the interest earned on investments held.
 - As of June 30, 2010, investments held were valued at \$835,307.

The following exhibit details the audited Gift Fund activity during the period under audit:

Fiscal Year	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-2009</u>	<u>2009-2010</u>
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



Audit Results

- In general, Laguna Honda needs to:
 - Improve its Administration of the Gift Fund
 - Strengthen Gift Fund Policies and Procedures on Donations and Expenditures.
 - Return all remaining Gift Fund donations and interest of \$18,609
 - Return operating income of \$5,430 to Laguna Honda's operating account.
 - Estimate the potential interest that would have been earned on a principal balance of \$176,481 from fiscal year 2006-07 to 2009-10 and transfer that amount to the Gift Fund.
- The audit report includes 10 findings and 20 recommendations for Laguna Honda to improve the administration of the Gift Fund.



Monetary Findings

- The audit team reviewed total contributions in all staff-related subaccounts of \$192,483.
- Of this total, Laguna Honda incorrectly recorded \$151,739 into staff-related subaccounts. Prior to the audit, Laguna Honda, after conducting an internal review of Gift Fund transactions, corrected and returned \$127,700 to patient related subaccounts.
- The errors were 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.
- In Fiscal Year 2006-07 \$176,481 was transferred from patient-related Gift Fund subaccounts to correct a negative balance in a Laguna Honda capital project fund. This amount has since been returned by Laguna Honda.



Internal Control Related Findings

- Specifically, Laguna Honda:
 - Did not adequately involve the Health Commission in the monitoring and oversight of its Gift Fund and did not consistently administer internal policies regarding the recording of expenditures.
 - 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.
 - Did not maintain documentation supporting the purpose of and restrictions on donations.
 - Did not maintain supporting documentation for some Gift Fund expenditures.



Recommendations

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

- Reclassify all Gift Fund amounts not explicitly designated for and recorded in staff development subaccounts into patient-related subaccounts.
- Discontinue recording operating income as Gift Fund donation revenue.
- 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.
- 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.



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