$64,000 Questions: Questions Every Committee Should be Asking of Management, Auditors and the Compliance Officer

Audit & Compliance Committee Academy

David H. LeMoine

September 22, 2006
3:15 – 4:00 p.m.
Included are questions every Audit Committee member should consider asking.

Blank spaces are left in each section of questions. During Academy presentations other questions will be noted. Participants should add these questions to this presentation.
Audit Committee Questions for Management

• What is the financial impact of any recent or anticipated changes in legislation?

• What is the financial impact of any recent or anticipated major changes in Medicare reimbursement? Are there any other anticipated changes in third party payor reimbursement?

• Have there been any significant changes in the operating or business environment that could have a significant impact on operations?

• What are the areas/processes in development, expansion or downsizing modes you are most concerned about? Why?
Audit Committee Questions for Management

• What objectives in the Strategic Plan are most critical to the status of the organization? What is the status of these items?

• Do you have any particular concerns related to potential internal control weaknesses?

• What Compliance focus areas will you address in the upcoming year? How do you plan to address the focus areas? Do you have any other compliance concerns?

• What is the status of Compliance education for associates and the medical staff (both general and technical education)?
Audit Committee Questions for Management

- What types of issues have been reported through the Compliance Program hotline and other reporting mechanisms? What actions have been taken in response to these issues?

- Are there any significant Compliance Program investigations in process? What is the status?

- Have detailed account analyses been reconciled to the general ledger on a timely basis (e.g., cash, accounts receivable, fixed assets, accounts payable)?

- Is a quality of earnings report prepared?
Audit Committee Questions for Management

- What processes are in place to identify significant business risks?

- What are the most significant financial reporting issues?

- What are the most significant judgment areas? Have there been any significant changes in accounting estimates?

- What is your overall evaluation of the degree of conservatism reflected in the financial statements? How does your evaluation compare with prior years?
Audit Committee Questions for Management

- Have you changed, or anticipate changing, any significant accounting policies or practices?

- What issues or concerns exist that could adversely impact the future operations and/or financial condition of the company?

- Do you receive periodic updates from the Chief Information Officer? Annual updates are the recommended minimum, with more frequent updates being optimal.

- Do you need an IT expert? If the organization has a high need for reliable information technology or is implementing a lot of new systems, it is recommended that the audit committee have a member who is an IT expert.
Audit Committee Questions for Management

• What do you see as the IT risks to the organization?

• Does executive management steer IT through a formalized and documented process?

• What does operational management see as the IT risks to the organization?

• Are operational managers named as system and data owners?

• How does IT management implement the IT strategy? This should include basing the operating plans and budgets on the strategy, monitoring progress, and reporting results to management and governance.
Audit Committee Questions for Management

• What are the IT trends in the healthcare industry and what risks do they present to the organization? This may include Regional Health Information Organizations (RHIOs), outsourcing, implementing ERP systems, and wireless networks.

• How have you matched system capabilities to the availability needs of the organization? This should include a business impact analysis based on operational needs, and it should include maximum recovery times when systems become unavailable.

• What does IT management see as the IT risks to the organization, including legal and compliance risks, and what is the risk mitigation plan? This could include risks related to application, infrastructure, and IT operations. The risks should be tied to the operational aspects of the organization.
How do you monitor and manage IT service delivery throughout the organization? This should include service level agreements (SLAs), benchmarking, and customer satisfaction surveys.

What is your methodology for acquiring and implementing IT systems? This should include a standardized process, possibly performed by a project management office (PMO), with involvement of operational personnel.

What are the biggest IT related challenges and issues? For example, salaries, outsourcing and system implementations.

Does the organization have a conflict of interest policy and who completes the questionnaire?
Additional Questions - Management
Audit Committee Questions for Internal Auditors

- How was the risk evaluated in order to develop the Annual Audit Plan? Are there important risk areas that are not being addressed due to a lack of resources?

- Have there been changes in risk or emerging issues during the course of the year that would necessitate changes to the Annual Audit Plan?

- Are audits being completed in accordance with the time line established in the Annual Audit Plan? Have any significant audits been cancelled or postponed? If so, why?

- Are there any internal audit reports which have not been issued because management has not developed action plans?

- Does management follow-up on significant action plans within the timeframes agreed upon? If not, why?
Audit Committee Questions for Internal Auditors

- Describe the qualifications of the staff.

- Does the internal auditor have regular meetings with the CEO? What is the frequency of the meetings?

- Does the internal auditor have adequate time to present their audit reports to the Audit Committee and respond to questions?

- How would you evaluate the ongoing implementation of the Compliance Program and the effectiveness of the program?

- Do you have any concerns regarding internal controls that are not included in audit reports?
Audit Committee Questions for Internal Auditors

- Is the size and structure of internal audit adequate to meet its established objectives?

- How do you integrate your efforts with the external auditors?

- Are major system implementations being reviewed and do they include operational and IT risk areas?

- What mission critical systems and infrastructure have not been reviewed?
Additional Questions – Internal Auditors
• Will you issue a “clean opinion”? Was there a consideration of issuing anything other than a clean opinion? If so, how were your concerns resolved?

• What significant estimates were necessary in preparation of the financial statements (e.g., contractual allowances and allowances for doubtful accounts)? Was the accounting treatment conservative or liberal?

• What is your overall evaluation of the degree of conservatism reflected in the financial statements? How does your evaluation compare with prior years?

• What is your overall evaluation of the degree of comparability of the financial statements with the prior year’s? What were the causes of significant differences?
• In what areas were there differences noted that were not adjusted? Was there any noticeable trend in these areas (e.g., did all differences overstate income)? What was the underlying reason for not recording the adjustments (e.g., were they immaterial to overall operations)? How do you determine materiality in evaluating these differences? What happens if immaterial items get larger in future years?

• Have there been any significant changes on the engagement team?

• How do you integrate your efforts with the internal auditor?

• Do you have any concerns regarding internal controls not included in the management letter?
Audit Committee Questions for External Auditor

- What do you consider to be the high risk areas in our organization? What procedures do you or internal audit perform in these areas?

- Have you made any significant changes from last year in your audit procedures? If so, why?

- Were any significant unusual transactions noted? Was the accounting treatment proper?

- Are there any changes in accounting policies by FASB that will impact the financial statements?
Audit Committee Questions for External Auditor

- What systems did the external auditors review to arrive at their conclusions about IT controls?
- Have improvements in IT operations been seen from year to year?
- What best practices from other clients have been shared with IT management?
Audit Committee Questions for Compliance Officer

- Are you prepared to implement recent or anticipated changes in legislation?
- What compliance risk areas will you address in the coming year? How did you identify the risk areas and how do you plan to address them?
- Do you have any other compliance concerns?
- Are there any significant compliance investigations in process? What is the status?
Additional Reading Materials


- “The Audit Committee: Purpose, Process, Professionalism” (AICPA)

- “Training the Audit Committee” (7/2006)– www.theiia.org

- AICPA Audit Committee Toolkit (2004)
Additional Reading Materials

• *Organizational Governance: Guidance for Internal Auditors (7/2006)* – [www.theiia.org](http://www.theiia.org)

• *Tone at the Top* – published by the Institute of Internal Auditors (enroll for free membership at [www.theiia.org](http://www.theiia.org))

• "*The Path to Accountability – Enhancing the Relevance, Reliability, and Transparency of Reporting Through More Effective Risk Management in Not-for-Profit Healthcare*” – KPMG

• *Audit Committee Effectiveness – What Works Best (2005)* – Institute of Internal Auditors
DISCUSSION