

HCCA



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**Meet
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Letter from the CEO

Sarbanes-Oxley

Roy Snell

Sarbanes-Oxley (SOX) suggests rotating auditors. There is also some language about rotating partners or technical review partners within the same firm. The intent of these recommendations is to maintain auditor independence. HCCA has had the same auditors for about six years, and because “we are the compliance association” we are going to put the audit out for bid. Even though SOX doesn’t apply to nonprofits, we support the intent of SOX. There is an eagerness to change so we can say we follow the highest standards. Ironically, though I support this process whole heartedly, I am very worried that we may not end up with an effective audit next year. Oh the humanity.

I am very concerned about the independence of our audit. I look at audits a little differently than some. I would rather the auditors be very critical and give me their best shot every year. I want to deal the little problems now rather than “the big one” years from now. I don’t want to have a problem go undetected and grow into something that could hurt my reputation or the organization. I want our CFO (Charlie) and our auditors to develop an accurate and informative set of numbers so people will think we are worthy. I really support the “spirit of SOX.” However there are many ways to mess up an audit other than a lack of independence.

The following are ways an audit firm can be ineffective:

- Lack of audit experience
- Lack of experience with your type of business
- Lack of knowledge of key risk areas
- Lack of independence
- Lack of effort
- Staff turn over
- Lack of ability to question business decisions

I believe that our current auditors are independent. They report to the audit committee directly. I am sure they find me to be bright, witty and charming however, when it comes to finding and reporting problems they are independent. I have worked for, and with many audit firms in my day. I have seen cases where the audit was not effective because there was a lack of experience, knowledge or commitment. Ironically,

experience, knowledge and commitment may be more frequently the reason for an ineffective audit than a lack of independence. I think auditors that are not independent overlook problems but more importantly some auditors are unsuccessful because they do not have the necessary experience, knowledge or commitment.



What if we switch auditors to maintain independence and end up with a firm that is not as effective technically? What if we have independent and technically effective auditor now? We will end up with just the opposite of what the authors of SOX wanted. I want to comply with the spirit of SOX. SOX wants independence so the audit is effective. The ultimate “spirit” of SOX is to have an effective audit. I want an effective audit every year. I don’t want to find out 3 years from now that we and our auditors missed a costly mistake that would not have been costly if we had caught it right away.

Independence is important for detecting and reporting fraud and abuse. Switching auditors is not intended to help find run of the mill accounting errors. I never want fraud and abuse, however I am more concerned about mistakes that could cost us money or cause us to make a bad decision. I worry about independence but I am more worried about the mistakes that have nothing to do with independence. If our numbers are wrong and it goes undetected serious damage could be done. It is more popular to worry about fraud and abuse but I worry more about undetected run of the mill mistakes which generate bad numbers and have a negative financial impact or cause bad decisions to be made.

Let me tell you another thing about our auditors. They talk to me all the time about how I make decisions and run this association. They question my decision making constantly. They often tell me other ways to manage our organization. They share experience that they have had in the many other organizations they have done work for. They are actually good business people too. What if I loose that critical review of my business decisions?

The great irony is that I am concerned our annual audit will not improve. If we have a good auditor now that is independent, changing audits can only increase our chances for failure. Although, we will be able to say we changed auditors to comply with SOX, there is a chance that we could end up worse off. Here is an interesting question. What if we change to an auditor that does not want to report bad news for fear of loosing the job? What an irony that would be. It could happen. I don’t want to take a

chance that things will be missed. I want a comprehensive and effective audit every year.

Our current auditors are effective because they have had six years experience of looking at various areas of our business. They know our risk areas and they know what we do well and what we don't do well. Each year our audit gets more effective because they know where to look and where they don't have to waste too much time. And when they look, they can look quickly because they know our numbers, systems, and procedures so well. This experience allows them to use their time effectively when they look at our numbers. There is no wasted motion.

A new auditor will have to start the learning process all over. I know the intent of SOX is to make sure we do not become too close to our auditors and that we/they don't become complacent. We do have our auditors report directly to the Chair of the Audit Committee. If we change I believe that few firms could match their experience and effectiveness particularly in the first couple of years. Even after a new audit team gets up to speed it may not be as effective.

In six years we have not had any turnover in our audit partner who is on-site for our annual audit. Turnover in a small client like us is not uncommon. Turnover would result in starting the learning process all over again. What if the firm we switch to can not maintain the same consistency with regard to staffing? Independence is important however there are a number of other ways to mess up an audit. In fact, I think independence is not the top reason an audit can be messed up. It may not even be in the top three most common reasons an audit fails. Prior to starting our own office, the auditors hired by our management firm were completely ineffective. There are a number of ways we can mess this up.

Nobody is a bigger compliance zealot than I. I unequivocally support SOX. I support nonprofits following most components of SOX. But I would prefer that we follow the spirit of SOX which is to have independent and comprehensive audits. Ironically, that would mean we did not follow the recommendation in the Sarbanes-Oxley Act to change auditors. I know it is possible that by changing our audits we could improve but is the chance worth the risk?

The irony here is that I am worried that this change will cause me more risk. I question changing auditors because I want to keep the proven comprehensive review process we now have. Even as the CEO of a nonprofit I want to follow SOX; however, I want to follow the spirit of the law. I desperately want to change so we can say we follow the best compliance practices, however more than anything I want to get it right. ■