

**GUIDELINES FOR AUDITS OF
COUNTY AND CITY HOSPITALS
BY INDEPENDENT CERTIFIED PUBLIC ACCOUNTING FIRMS**

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INTRODUCTION

On March 21, 2002, Public Law 91, 2002 amended IC 16-22-3-12 to allow county hospitals to engage an independent certified public accounting firm experienced in hospital matters to perform the annual audit of the hospital required by IC 5-11-1-25. Public Law 91, 2002, also requires such audits to follow guidelines established by the State Board of Accounts.

Indiana Code 16-23-1-45(a) grants the governing board of a city hospital the same rights and powers as the hospital board of a county hospital. Therefore, it is our position that city hospitals may elect to engage an independent certified public accounting firm experienced in hospital matters to perform their annual audit as required by IC 5-11-1-25.

The Guidelines for Audits of County and City Hospitals by Independent Certified Public Accounting Firms are intended to provide the hospital and the independent certified public accounting firm with the information necessary to successfully complete audits of county and city hospitals.

It has been, and will continue to be our policy, that one and only one appropriate audit need be performed of any state and local government. It is therefore imperative that hospital officials and their independent certified public accounting firm exercise diligence in determining applicable audit requirements, prior to commencing the audit process.

Charles Johnson III
State Examiner
State Board of Accounts

GUIDELINES FOR AUDITS

Auditing Standards to be Applied

Audits of county and city hospitals must be performed in accordance with auditing standards generally accepted in the United States, commonly referred to as Generally Accepted Auditing Standards (GAAS), and the following applicable guidelines or requirements, if applicable.

County and city hospitals that receive and expend federal awards are subject to the provisions of the Single Audit Act, as amended 1996. The Single Audit Act requires the Office of Management and Budget (OMB) to prescribe policies, procedures, and guidelines necessary for its implementation. The resulting OMB Circular A-133 established audit and reporting requirements for governmental entities and not-for-profit organizations receiving and expending federal awards, and defined responsibilities and duties for federal awarding agencies and pass-through agencies and entities.

Among other things, the Single Audit Act, as amended 1996, and OMB Circular A-133 require audits of governments receiving and expending federal awards to be performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States (as revised).

Audits of county and city hospitals must also follow the guidelines contained in the American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide entitled Health Care Organizations. Among other things, this audit and accounting guide requires audits of government-owned hospitals to follow the accounting and reporting principles for governmental entities. As described in Statement of Auditing Standards (SAS) No. 69, these principles consist primarily of the official pronouncements issued by the Governmental Accounting Standards Board (GASB).

Please be advised that beginning with the 2002, 2003 or 2004 reporting year (depending on the total revenues of the hospital), GASB Statement No. 34 will become effective. GASB Statement No. 34 will significantly change the reporting requirements for all governments, including county and city hospitals.

Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals

Each hospital should have on hand the Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals issued by the State Board of Accounts, which is commonly referred to as the accounting manual. This manual highlights most, but not necessarily all, the state statutes and accounting guidelines county and city hospitals are required to follow. Please refer to IC 5-11-1-24(a), which states: "The state board of accounts shall establish in writing uniform compliance guidelines for the examinations and reports required by this chapter. The uniform compliance guidelines must include the standards that an entity must observe to avoid a finding that is critical of the entity for a reason other than the entity's failure to comply with a specific law."

Regardless of who performs the audit, the hospital is expected to follow the uniform compliance guidelines described above. Instances of noncompliance with state law or uniform compliance guidelines must be included as a finding in the audit report in accordance with IC 5-11-5-1(a).

The Accounting and Uniform Compliance Guidelines Manual for County and City Hospitals is available for download at the State Board of Accounts website at <http://www.in.gov/sboa> or may be purchased by contacting the State Board of Accounts.

Reporting Requirements

IC 16-22-3-12(c) requires that the audit report issued in conjunction with the audit of a hospital performed under this section be maintained on file at the hospital and provided to the State Board of Accounts. In addition, IC 16-21-6-3 requires each hospital to file with the State Department of Health a report for the preceding fiscal year within one hundred twenty (120) days after the end of the hospital's fiscal year. The State Department of Health is authorized to grant extensions of time to file the report if the hospital shows good cause for the extension. Please refer to IC 16-21-6-3 for specific reporting requirements. Such reporting requirements are in addition to reporting requirements promulgated by GASB and, if applicable, the Single Audit Act and OMB Circular A-133 discussed above.

The State Board of Accounts will review audit reports filed under these guidelines. If it appears the audit report meets the requirements described in these guidelines, the audit report will be filed by the State Examiner in accordance with IC 5-11-5-1. A copy of the audit report will be provided to the county or city executive.

The State Board of Accounts may make certain inquiries of the independent certified public accounting firm that performed the audit, review the audit working papers, or take other steps deemed necessary as part of the review process. In addition to reviewing the audit report and supporting working papers, as applicable, for sufficiency in scope and adequacy in quality, we will evaluate findings of noncompliance for further action required by this department.

Keep in mind, however, that the hospital and independent certified public accounting firm that performs the audit must accept full responsibility for the content of the report. After careful consideration, if the State Board of Accounts is not satisfied that an audit report adequately meets the requirements of these guidelines, such audit report will be filed by the State Board of Accounts with a statement indicating the audit report does not meet the guidelines as prescribed.

Fraud, Abuse or Illegal Acts

If the independent certified public accounting firm discovers or suspects instances of fraud, abuse or illegal acts during the audit of the hospital, the State Board of Accounts must be notified immediately.

Notification

IC 16-22-3-12(c) requires the hospital to provide written notice to the State Board of Accounts if it elects to have the audit of the hospital performed by an independent certified public accounting firm. Such written notice is required to be given not less than one hundred eighty (180) days before the beginning of the hospital's fiscal year in which the hospital elects to have the audit of the hospital performed by an independent certified public accounting firm. If a hospital elects to terminate the use of an independent certified public accounting firm it must provide written notice to the State Board of Accounts not less than one hundred eighty (180) days before the beginning of the hospital's fiscal year in which the hospital elects not to be audited by an independent certified public accounting firm. For any fiscal year in which the hospital does not use an independent certified public accounting firm, the hospital shall be audited by the State Board of Accounts.

Contract Approval Process

Due to the complexity of government regulations and the uniqueness of existing arrangements and relationships between funding agencies and hospitals, it is imperative that the hospitals and their auditors confirm in advance, the type and scope of audit necessary to satisfy all parties involved. This extra effort in the preliminary phase of the audit process will ensure that one and only one audit need be performed.

To obtain approval for the audit, two copies of the audit contract, engagement letter, or equivalent, must be submitted to the State Board of Accounts prior to signing. During our review of the contract, we attempt to ascertain the following:

1. The Independent Certified Public Accounting Firm Selected:
 - a. Is licensed to practice public accounting in the State of Indiana.
 - b. Acknowledges awareness of audit and reporting requirements for county and city hospitals.
 - c. Has no record of performing substandard audits.
 - d. Understands the role of the State Board of Accounts in the audit process.
 - e. Meets the independence requirements of the American Institute of Certified Public Accountants or the Government Auditing Standards (commonly referred to as the Yellow Book), as applicable.
 - f. Has implemented a system of quality control compliant with professional standards.

Contracts with no reference to or acknowledgement of the responsibility of the State Board of Accounts in this process will not be approved. Therefore, to ensure timely approval of the contract, we recommend inclusion of the following wording:

1. The audit will be performed in accordance with guidelines established by the State Board of Accounts, as well as auditing standards generally accepted in the United States and if applicable, Government Auditing Standards, OMB Circular A-133, and other guidelines.
2. The audit report will address instances of noncompliance with state statutes relevant to county or city hospitals, as well as applicable federal, state and local laws and regulations.
3. The audit report will address instances of noncompliance with the Accounting and Uniform Compliance Guidelines Manual issued by the State Board of Accounts.
4. The State Board of Accounts will be notified immediately when instances of fraud, abuse or illegal acts are discovered or suspected.
5. The State Board of Accounts will be notified in writing of the date, time and place of the exit conference.
6. The State Board of Accounts will receive a copy of the audit report.
7. Working papers supporting the audit report will be available for review by the State Board of Accounts.

Upon completion of our review, one copy of the contract will be returned to the contracting official, accompanied by our written approval or rejection. Our reason(s) for rejecting any audit contract will be stated in writing.

The approval of your audit contract by this department is not an assertion that your audit will satisfy federal funding agencies or other reporting requirements. Our approval is based on our knowledge of the hospital's overall audit requirements and is not to be used as a substitute for thorough planning by the independent certified public accounting firm.