To the Graduate Council:

I am submitting herewith a dissertation written by Thomas A. Gavin entitled "The Consideration of Financial Accounting and Internal Control Issues by Boards of Trustees of Voluntary Short-Term General Hospitals: An Empirical Investigation." I have examined the final copy of this dissertation for form and content and recommend that it be accepted in partial fulfillment of the requirements for the degree of Doctor of Business Administration.

Jan R. Williams, Major Professor

We have read this dissertation
and recommend its acceptance:

Accepted for the Council:

Vice Chancellor
Graduate Studies and Research

THE CONSIDERATION OF FINANCIAL ACCOUNTING AND INTERNAL CONTROL ISSUES BY BOARDS OF TRUSTEES OF VOLUNTARY SHORT-TERM GENERAL HOSPITALS: AN EMPIRICAL INVESTIGATION

A Dissertation

Presented for the

Doctor of Business Administration

Degree

The University of Tennessee, Knoxville

Thomas A. Gavin

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Dedicated To:

My Wife,

Our Children,

and

My Parents

Truth is simply one in the divine mind, but many truths flow thence into the human mind, as one face may be mirrored with variety.

St. Thomas Aquinas, De Veritate, 1259

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ABSTRACT

This doctoral dissertation is a research effort directed at determining the manner and extent that boards of trustees of voluntary short-term general hospitals address financial accounting and internal control (FA/IC) issues. Organizationally, FA/IC issues can be pursued by either the full board or some type of committee structure. Committee structures include a single committee, joint committee, or multiple committees. Besides comparing hospital board structures to primarily determine where differences exist as to what FA/IC purposes are identified and what FA/IC functions are pursued, this research also compared all hospital board FA/IC committees with data gathered on corporate audit committees by Robert K. Mautz and Frederick L. Neumann and presented in their study entitled Corporate Audit Committees: Policies and Practices.

The literature review provides a foundation on which the research is built. Some of the more important findings within the literature are:

1. In the past, governing boards have been portrayed as not living up to their responsibilities.
2. Management retains power because they control the flow and shape of information given to the board, as well as the kinds of matters they will discuss.
3. A committee structure of the board permits an intensive treatment of a subject that the full board would only

briefly have time to consider because of its many time constraints.

The results of the analysis reveal that substantial differences exist between corporations and hospitals concerning the way boards address FA/IC issues. In the corporate setting, respondents viewed as important the committee's personal contact with the external auditor; the committees most frequently pursue and view as most important those functions related to the independent auditor. Respondents from hospitals, on the other hand, view contact with the hospital financial officer as important; hospital FA/IC committee functions are dispersed across a wide range of functions that appear to be indicative of the industry's environment.

Hospital FA/IC committees identified more FA/IC purposes and functions, particularly related to the independent auditor, than did full boards. All hospital board structures viewed among the most important and effectively pursued functions reviewing budgets and discussing the meaning and significance of the audited financial statements.

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CHAPTER I

INTRODUCTION

The hospital industry is an important segment of our society from economic and social standpoints (37, 53, 60, 120); it affects the life of nearly every American. The industry employs over 3.2 million people; in 1977, hospital expenditures exceeded more than 63.6 billion dollars in the United States, which is approximately 3.3 percent of the gross national product (132). The following four items (53) illustrate the complexity of the economic, social, and legal environments of the hospital industry:

1. The expansion of third-party reimbursement plans such as Medicare and Medicaid, from the governmental sector, and Blue Cross and other programs, from the private sector, has had the effect of increasing the demand for medical services.
2. Improved technology and medical techniques have increased the range of hospital services, as well as the complexity of hospital operations.
3. The expanding role of government is evident from its involvement in the regulation of the industry. Legislative involvement ranges from the Medicare Act in 1965 to the Medicare-Medicaid Anti-Fraud and Abuse Amendments of 1977.

4. Increasing hospital costs have resulted from the expansion of payroll expenses, capital improvements, inflation, and a widely held contention that non-profit hospitals have no financial motivation to contain costs.

Hospitals provide many services to a large variety of parties (76). The dimensions of the institution that reflect its complexity include: managerial (60), professional staff (46), legislation and regulation (140), financial and auditing (4, 10, 41, 67), accreditation (62), patient care (37, 60), and accountability (45). Research has shown that hospitals, as maintenance organizations, are slow to respond to changes occurring in the surrounding society (76). This slow response time has left hospitals, their managements, and boards open to criticism concerning their ability to manage resources and account for their actions (38, 45, 85).

The term "accountability" has been used increasingly in recent years; no concensus exists as to its precise meaning (121), although financial reporting transcends any operative definition. Some are of the opinion that the social role of the entity, as well as legal requirements, are determinants of the emphasis given accountability (90). The objectives of financial reporting are not restricted to financial statements and include the provision of information about an enterprise's financial performance during a period and about how management of an enterprise has discharged its stewardship responsibility or accountability (57). The plethora of issues related to internal control converge on, and are an extension of, accountability.

The move toward greater accountability can be explored on many fronts: governments and their agencies, profit-oriented corporations, and not-for-profit organizations. Over the last few decades, corporations have been subject to close scrutiny because either their actions or inactions were judged to violate society's mores. Corporate accountability was improved with the institution and broad acceptance of audit committees of the board of directors. Much research has been done on this corporate audit committee phenomenon, most notably by Mautz and Neumann who undertook two substantive studies (87, 88).

Contrary to the wealth of information available on audit committees in the corporate sector, little is known about whether and to what extent hospital boards of trustees or committees consisting of their members pursue issues and undertake activities considered to fall within the purview of the corporate audit committee.

A. OBJECTIVE OF THE STUDY

The objective of this study is to determine how boards of trustees of voluntary short-term general hospitals address financial accounting and internal control issues. These issues may be addressed by the full board or a select committee thereof, commonly referred to as an audit committee. Mautz and Neumann (88) define audit committee in a broad sense to mean any committee that has a specific charge to review or supervise the work of the independent or internal auditors. The purpose of an audit committee is to enhance the accountability of the organization to its constituents via increased attention given financial accounting and internal controls by a select group of board members. In turn, where

these responsibilities are under the purview of the board of directors as a whole, no audit committee exists. The research discussed here broadens the Mautz and Neumann (88) definition of audit committee to include responsibilities and actions performed by the board of directors as a whole.

The phrase audit committee is restrictive in the sense that it connotes a particular structure or form of the board of trustees to pursue financial accounting and internal control issues. The structure or form employed by the board of trustees may be an important factor concerning the extent the board addresses financial accounting and internal control issues and, therefore, board structure receives attention in this research. However, the major emphasis of this research is to determine the manner and extent that boards of trustees address financial accounting and internal control issues. For these reasons, the phrase audit committee is avoided unless specifically related to the work of another researcher who uses the term. In describing the functions typically performed by an audit committee, the acronym FA/IC, financial accounting and internal control, is used. The scope designated by this term is more representative of the breadth of the research discussed here.

This study addresses two general research questions concerning the manner and extent to which boards of trustees of voluntary short-term general hospitals address FA/IC issues. The first concerns a comparison with selected data from the study done by Mautz and Neumann (88) on audit committees in the for-profit sector. The second research

question concerns a number of comparisons made within the hospital board of trustee data on board structure and demographic dimensions.

1. Is there a difference between the way hospital boards of trustees address FA/IC issues and the way corporate boards address similar issues as described in the latest Mautz and Neumann study?
2. Is there a difference between the way hospital boards of trustees address FA/IC issues when hospitals are compared on the basis of identifiable institutional attributes?

The first question proposes a comparison of differences between the approach used by hospital boards of trustees to address FA/IC issues and the approach used by corporate boards to address similar issues as described in the 1977 Mautz and Neumann study (88).

The second question concerns a comparison, within voluntary short-term general hospitals, of factual and perceptual characteristics related to FA/IC issues based upon the board structure utilized to address such issues. Additional analysis is done to determine if independence exists between the board structure adopted to address FA/IC issues and the following institutional attributes: bed size, utilization of a management contract, size of the external accountant's firm, and geographical location of the hospital.

B. CONTRIBUTIONS

Given the important social and economic implications of the hospital industry discussed earlier, an empirical research project to

determine the extent of the consideration of FA/IC issues by hospital boards of trustees is justified. Further justification is derived from the fact that the tremendous exposure given the need for accountability in the for-profit sector resulted first in substantial discussion and ultimately in reform. This reform is clearly exemplified by the New York Stock Exchange's mandate to its member firms to institute audit committees by June 1978.

Little information is available on how hospitals have addressed accountability via the pursuit of FA/IC issues by boards of trustees. This study provides information that can be used by hospital boards to assess their comparative position and make structural modifications as they deem appropriate. Members of some boards have a general knowledge of the FA/IC activities and functions undertaken by other boards; members of many other boards have no such knowledge. This "state of the art" study enables hospitals within the segment of the industry addressed in this study to evaluate their overall strengths and weaknesses. Individual hospital boards using the information provided by this study can modify, if necessary, the manner and extent to which they deal with FA/IC issues.

This study also provides information that can be used by professional associations and legislative bodies as input into policy deliberations on accountability (18, 34, 91). Such associations are those composed of hospitals, as well as professional groups made up of trustees, administrators, and financial executives. These, along with legislative bodies at all levels, can use the information from this study in a manner similar to that described above for hospitals.

C. METHODOLOGY

Since information is not available on the manner and extent boards of trustees of voluntary short-term general hospitals pursue FA/IC issues, a questionnaire approach is employed because it is the only feasible way to generate the pertinent data. This methodology has been employed in other research concerning boards, both in the for-profit and not-for-profit sectors (16, 36, 47, 79, 87, 88, 109).

The sample frame consists of hospital chief financial officers who: 1) are members of the Hospital Financial Management Association (HFMA), and 2) are employed by voluntary short-term general hospitals. Chief Financial Officers (CFO) have been identified as having a substantial relationship with boards of trustees in their pursuit of FA/IC issues, as well as with the processes of financial accounting, reporting, and internal controls within their respective institutions (e.g., Mautz and Neumann). Such interaction with the board of trustees or a select committee thereof takes the form of supplying and reviewing information, answering questions, and generally acting in an advisory capacity.

Voluntary hospitals consist of all privately owned, non-profit community hospitals which are the largest group of hospitals, according to ownership type, in the United States. Other ownership types include federal, state, and local government, proprietary, and church-related. Voluntary hospitals comprise some 2,500 of the approximately 7,000 hospitals in the United States (16, 60). The primary goal of these hospitals is good patient care, as compared to teaching hospitals whose primary goal is instruction. The choice of voluntary hospitals within the broader non-profit category was made because the study

concentrates on the governing board of each entity. Since voluntary hospitals are free of any affiliation with other institutions, the board of trustees of these institutions is completely and ultimately responsible in the same sense as the board of directors of a for-profit organization.

D. ORGANIZATION OF THE STUDY

The study is presented in six chapters. The first chapter has introduced the subject and stated the objectives, contributions, and methodology employed. The second chapter examines the pertinent literature within both for-profit and not-for-profit sectors. The section dealing with the for-profit sector contains an overview of the development of the audit committee phenomenon. The section on the not-for-profit sector reviews hospitals, the environment in which they function, their organizational structure, and major research studies that address their boards of trustees.

Chapter III contains a discussion of why, as well as how, certain hospitals and their representatives were selected for study. The information retrieval process is examined. The research questions, hypotheses, and statistical techniques employed are also developed.

Chapter IV provides an analysis of the research findings concerning the comparison between corporations and hospitals. Chapter V compares hospitals based upon the board structure employed to address FA/IC issues. Within these two comparisons emphasis is placed on purposes for addressing FA/IC issues and FA/IC functions performed.

The last chapter contains a review of the major findings of the study. In addition, implications concerning accountability of boards of trustees and directions for future research are presented.

CHAPTER II

REVIEW OF THE LITERATURE

Earlier writings establish a perspective for this study and allow the reader to integrate the subject of this study into a broader framework. The literature review presented here is divided into three major sections. The first section presents a brief description of governing boards, how they are viewed, and the fulfillment of their responsibilities through, in part, the attainment of power. The second and third sections examine boards of directors in the for-profit sector and boards of trustees in the not-for-profit sector respectively.

Separating for-profit and not-for-profit organizations serves as a basis for comparing the attention given FA/IC issues at the governing board level between the two sectors. The material presented within the for-profit section of the chapter is grouped into the following topical areas: selected professional groups and associations, regulatory and legislative issues, and prior research. The presentation is from the perspective of groups that have encouraged creation of audit committees and the environments in which corporations operate. The material presented within the not-for-profit section is grouped within three topical areas, each of which examines, from a different standpoint, the environment of the hospital from the perspective of board trustees in their pursuit of FA/IC issues. The topical areas are: unique organizational characteristics of hospitals; legal, legislative, and policy issues; and prior research.

This literature review is not intended to synthesize every source on the subject; rather, it is meant to give the reader an appreciation of the increasing importance of the subject.

A. GOVERNING BOARDS

Some believe that governing boards are a non-functional aesthetic appendage of organizations and, in reality, control rests with the full-time managers. This view has existed for quite some time (19, 45, 65, 76, 84, 99). Zald believes that the power needed by the board for it to function in the intended manner is derived from the board's ability to access relevant external resources and/or from knowledge relevant to the ongoing operations of the organization (142). Board members, as resource gatherers, acquire power from their ability to retrieve economic resources for the entity. In the hospital setting, this is a highly valued skill. The second source of power, knowledge of ongoing operations, allows a critical examination of resources consumed and planned consumption of resources in light of the present and future resource mix. Knowledge generally prevents management from leading the board. This second source of power is of concern in this dissertation. Subsequent paragraphs deal with the following items as they relate to the power needed by board members to pursue their duties responsibly: management's control of information, independence in the preparation of information, methods of information transmission, and the committee as an effective device for acquiring knowledge.

Management's Control of Information

Retention of power by management is achieved because management controls the flow and shape of information given to the board, as well as the matters discussed (34). Size and/or complexity of the organization only aggravate the situation (142). Complexity and size make it difficult for board members, as users of financial information, to determine where to begin in terms of type(s) of relevant information needed. It seems reasonable to assume that efforts by the board to dilute management's power in this regard could be accomplished by relying on others inside and outside the entity as sources of information.

Anthony (19, 20) contends that the extent governing bodies can prescribe their financial information needs and do so are two factors that relate to classifying these users as external or internal. Clearly, if their power is at a minimum, they would be classified as external users since they could demand no information other than what the entity provides to outside users. This seems highly unlikely. The more reports and the more experts, both inside and outside the entity, that the board can access, the more board members can be classified as internal users of financial information. The legal and social roles they play in the financial user process require that they be insiders.

Independence in the Preparation of Information

Related to power and information flows is the degree of credibility associated with the preparer(s) of the information. Preparer independence circumvents management's ability to solely control the flow and shape of information to the board (48, 73). For example, the demand

for the independent certified public accountant, an external representative to the board in his or her role as an auditor, is created because of the following conditions. Conflict of interest between information preparer (management) and user (the board) may result in biased information, intentional or unintentional, being transmitted to board members. Significance of consequence(s) of incorrect decisions by the board as a result of using wrong information and the complexity of information which makes it difficult or impossible for the user to be satisfied as to the quality of information further heightens the demand for the CPA auditor (2).

The stewardship function of the audit, when analyzed as an agency problem, clearly places the board of trustees in a fiduciary relationship to the stockholder constituents who are principals with the subservient agency role assumed by management (139). The audit process is commonly observed in the agency-principal setting.

One role of the internal auditor, a person inside the entity to whom the board can turn, is to assess the integrity of the accounting and administrative reporting system. The value of informational services provided by the internal auditor rests upon the strength of his or her qualitative characteristics. Among these is the quality of independence. Although referred to as a "state of mind" (86), it is thought that independence can be assessed in part by looking at what other jobs the internal auditor does, who his or her immediate supervisor is from a functional standpoint, and the level to which the internal audit report ascends (48).

Methods of Information Transmission

The means by which relevant and reliable information is given to the board is important. The communication of information is usually thought of as being transmitted via written reports and/or oral presentation-discussion. Each of these is a valuable device for transferring information. Added benefit to the board can be attained when, after submitting reports to the board or its committee, open discussion between the preparers and board members ensues to clarify and expand upon material in the report.

The Committee as an Effective Device for Acquiring Knowledge

For many years, some have felt that one of the most effective means a board can use to discharge its responsibilities and enhance its power is through active committees (30, 142). A committee structure, among other things, permits an intensive treatment of a subject that the full board would consider only briefly because of the time constraints placed upon it (34, 100, 107, 143). The following succinctly characterizes the value of committees:

> Educating trustees to meet the challenges confronting hospital boards takes two to three years, according to the board members interviewed here. And one of the best educational vehicles is committee work. It takes board members who do not serve on committees "an extra couple of years" to become knowledgeable about the issues confronting the hospital. . . . (81)

B. FOR-PROFIT SECTOR

The interaction of governing boards of for-profit corporations with FA/IC issues has, within the last ten to 15 years, grown as a result of the creation and implementation of the audit committee

concept. In the 1960's, issues of weaknesses in corporate governance and the lack of accountability by corporate managements resulted in a resurgence of interest in audit committees.

Although many definitions of an audit committee exist, the following definition is presented so that the reader may clearly see the relationship between audit committees and the research undertaken here:

> . . . a committee of the board of directors, composed chiefly of non-officers, which has a specific charge to deal with the corporation's audit matters and financial reports, especially those related to the external audit. (80)

Professional Groups and Associations

The American Institute of Certified Public Accountants (AICPA) has actively pursued issues related to governing boards and their committees. AICPA statements on the subject could be divided between those that fall within the purview of Rule 202 of the Code of Professional Ethics and those that fall outside this rule. Rule 202 states that a member shall not permit his name to be associated with financial statements when acting as an independent public accountant unless he has complied with generally accepted auditing standards promulgated by the AICPA. Statements on Auditing Standards (SAS's) are considered to be interpretations of generally accepted auditing standards and departures therefrom must be justified (14). The AICPA has incorporated communication with the board or a committee thereof into three SAS's.

The first of these SAS's states that the auditor should, if he (or she) still believes that material errors or irregularities exist after investigating them with one level of management above those

involved, determine that the board of directors or its audit committee is aware of the circumstances (6). The second SAS, dealing with clients' illegal acts, states that the auditor should report the circumstances to a high enough level of authority within the organization so that remedial action and/or adjustment or disclosure in the financial statements may be pursued. Some circumstances may require that the auditor report to the board of directors or the audit committee thereof (7). The third SAS establishes a requirement that the auditor communicate any uncorrected material weaknesses in internal accounting control uncovered during his (or her) examination of the financial statements to senior management and the board of directors or its audit committee (8).

The AICPA has released statements on audit committees that fall beyond the purview of the Code of Professional Ethics. In 1967, the AICPA recommended that publicly owned corporations establish audit committees composed of outside directors (3). In July 1977, the AICPA repeated that recommendation and urged its members to encourage corporations to establish audit committees (11). In its report dated December 1978, the AICPA's Committee on Audit Committees, formed in response to the recommendations of the SEC and the government's Moss and Metcalf subcommittees, stated a belief that audit committees could be very helpful to directors and independent CPA's in carrying out their duties. However, the committee concluded that audit committees are not necessary to maintain auditor independence and should not be required as a precondition for an audit to be conducted in accordance with GAAS (103).

Two releases not directly tied to the AICPA, but nonetheless related, endorse the establishment of audit committees. The Accountants

International Study Group recommended that publicly owned companies establish audit committees consisting principally of outside directors to assist all directors in fulfilling their responsibilities to the company and its shareholders (1). The Commission on Auditors' Responsibilities: Report, Conclusions and Recommendations stated that "where appropriate to the size and circumstances of the corporation, board membership should include independent outsiders, and an audit committee should be formed" (99).

Public accounting firms have repeatedly voiced differing opinions on the concept of audit committees. Larger firms endorse the concept of audit committees and support their implementation (21, 101, 124, 131). Many smaller firms do not endorse the audit committee concept and have made their collective view known through the National Conference of CPA Practitioners (NCCPAP). The two primary concerns of the NCCPAP, as expressed by past president Clinton J. Romig, are that audit committees will displace small and medium-sized CPA firms and that directors or individuals selected to serve on an audit committee would not be professionally capable of performing their duties (110). Romig and his constituents perceive that when the audit committee is assigned the function of selecting a CPA firm that they will "buy a name" instead of making inquiries concerning the capabilities of the firms involved.

The American Bar Association (ABA), through its Committee on Corporate Laws, stated that it is desirable for the board of directors to establish an audit committee to oversee the accounting and audit functions; the board should be permitted to rely upon the more detailed work product of its committees (126). Also as a result of the increased

complexity of corporate affairs, the ABA committee broadened the range of situations in which directors will have available the right to rely on materials as well as individuals considered expert or professional. Increased size and complexity of the firm and its activities appear to place the standard of care with a small working group of the board that has access to outside advisors and their work products and upon which the full board can rely because of its confidence in its committee.

The first major endorsement for establishing audit committees came from the New York Stock Exchange (NYSE) in 1939. This action resulted from the McKesson and Robbins case. The thrust of the endorsement concerned the selection of auditors by a board committee composed of non-officer directors (94).

In 1973, the NYSE again recommended that its member firms form corporate audit committees (95). This recommendation came from increased awareness given corporate accountability as a result of negative publicity surrounding questionable corporate activities. In 1977, recommendations gave way to a requirement that NYSE member firms establish audit committees by June 30, 1978 (27, 116). The requirement stated that the committee was to be comprised solely of directors independent of management and free of any relationship that could impair their independent judgment.

The American Stock Exchange (AMEX), after investigating the possibility of requiring its member firms to establish audit committees, decided instead to only recommend such committees and further suggested that they be composed of outside directors (100). Their decision was, in part, based upon the fact that 89 percent of the approximately 1,000

member firms already had audit committees and the belief that flexibility should be maintained to allow member firms to meet their unique needs of corporate governance as each sees fit.

Regulatory and Legislative Issues

Following the McKesson Robbins investigation, the Securities and Exchange Commission (SEC) advocated the adoption of a program that, in part, called for the establishment of a board committee composed of non-officer directors to nominate independent auditors and arrange for the particulars of the audit engagement (112). In 1972, citing both its 1940 and the AICPA's 1967 recommendation, the SEC again endorsed the establishment of audit committees by all publicly held corporations (113). The rationale underlying the recommendation was that its implementation would assist in affording the greatest possible protection to investors who rely upon financial statements. Later that same year, the SEC stated that audit committee independence would be strengthened if the committee was composed of outside directors (114). In keeping with its mandate of ensuring full and fair disclosure, the SEC began requiring disclosure in proxy statements of the existence of an audit committee of the board and the names of the committee members (115).

In September 1976, the Subcommittee on Oversight and Investigations of the House Committee on Interstate and Foreign Commerce, a.k.a. the Moss subcommittee, recommended that the SEC establish rules to assure that boards' audit committees have a majority of independent directors, that they have available to them independent expert advisors, and that boards have the authority to engage and dismiss the independent auditor (134). The first two of these proposals presuppose the existence

of audit committees. This supposition was addressed the following year by the Metcalf subcommittee--The Subcommittee on Reports, Accounting and Management of the Senate Committee on Governmental Affairs--which stated that the SEC or the accounting profession should require publicly owned corporations to establish audit committees composed of outside directors as a condition to being audited by an independent CPA firm (137). As stated earlier, the AICPA rejected this idea (103).

As a result of enforcement proceedings against certain corporations, the SEC has not only required that they establish audit committees, but that these committees pursue specific duties or functions. These functions included reviewing: the results of the independent audit, the firm's code of conduct, all public releases of financial information, and dealings of officers and directors with the firm (11).

Prior Research

The literature is replete with articles dealing with corporate audit committees. Four of the more substantive empirical research studies drawn upon by many who subsequently wrote on the subject are briefly reviewed here.

A pioneering study was published by Mautz and Neumann in 1970 (87). Utilizing a survey research methodology, primarily questionnaires, the authors' objective was to determine the state of the art of audit committees. Firms surveyed were drawn from the Fortune Directory and the SEC Directory. Questions addressed included the existence of such committees, their size, purposes and functions, their usefulness and effectiveness, and their member composition and frequency of meetings. Mautz and Neumann drew four significant conclusions based upon the

responses received. First, the committees were not employed as widely as originally believed. Although the study mentions no a priori estimate, the study revealed 31 percent of responding firms had audit committees. Second, the committee is a flexible device both in terms of purpose(s) and function(s) as indicated by its adaptability to the needs of specific types of organizations (e.g., insurance industry emphasis on internal controls). Third, the effectiveness of the committee depends mainly on top management's attitude toward corporate governance and the audit committee. Fourth, the boards place an increasing emphasis on the maintenance of internal corporate discipline. Mautz and Neumann, noting the committee's potential for usefulness, strongly recommended that all companies with significant shareholder interests consider establishing an audit committee.

The Auerbach study (22) limited itself to an examination of 100 sampled clients of an international accounting firm. The major findings were that audit committees were twice as common among larger firms than smaller firms. Beyond the primary function of reviewing the scope and results of the audit, many audit committees evaluated the financial officers, internal auditors, and the staffing of these departments. Approximately half of the committees reported discussing with the independent auditor the auditors' management letter and recent professional and regulatory pronouncements impacting on the financial statements. The study recommended that every firm should consider utilizing an audit committee because it gave the board a grasp of the audit process and the annual report that they would not otherwise have.

The role of corporate audit committees mandated by the Ontario Business Corporations Act of 1971 and the extent of the act's contribution toward corporate governance was studied by Lam (79). Data were retrieved via questionnaires from a sample of chief executive officers whose companies were listed on the Toronto Stock Exchange. Lam drew the following general conclusions from summary statistics: the committee apparently has a positive effect on the reliability of the firm's financial statements; and the committee's usefulness and effectiveness are apparently improved when directors, management, and auditors have a clear and full understanding of the committee's purposes and functions. More specifically, the more important purposes for having an audit committee were to relieve the board as a whole of details regarding the independent audit and to serve as an independent review function of the company's operations and its annual financial statements. Functions considered important and at the same time performed effectively were to review with the independent auditor their findings and recommendations, his evaluation of internal controls, and to review the annual financial statements before submission to the full board.

In 1977, Mautz and Neumann undertook a study similar to their first to observe trends and changes and to identify problems encountered in implementing audit committees (88). The study revealed that 87 percent of the responding firms acknowledged the existence of an audit committee. This second study strongly reinforced the authors' view that corporate audit committees add an extremely useful dimension of discipline to corporate performance. The authors identified three phases in the operational evolution of the audit committee concept.

The initial stage has a paucity of identifiable characteristics, namely, a limited number of meetings and/or experts relied upon, and duties not clearly specified. The second stage exhibits any one of a number of behavioral and/or organizational characteristics such as additional meetings with experts, review of the management letter or financial statements filed with regulatory agencies, increased attention given the internal audit function and possibly initiation of this function. This second stage clearly marks the expansion of the committee to a more complete operational status. Stage three, the mature committee, has a larger number of the characteristics than identified in the intermediate phase. For example, members of management still on the committee are replaced by non-officer directors, the non-officer committee chairman prepares agendas for meetings, and the committee members exhibit a heightened awareness of their responsibilities.

C. NOT-FOR-PROFIT SECTOR

Few writings have addressed the subject concerning the manner and extent that boards of directors or trustees of not-for-profit entities are involved in addressing FA/IC issues. A number of professional associations, CPA firms, and individuals have encouraged not-for-profit institutions, such as hospitals, to consider establishing a committee structure to address FA/IC issues (1, 9, 52, 59, 102). None of these writings offer empirical evidence illustrating the board structure, i.e., committee structure, used by hospital boards of trustees to address FA/IC issues, the specific FA/IC activities undertaken, or the extent to which various experts are relied upon.

As empirical data are lacking on whether, how, and to what extent hospital boards of trustees address FA/IC issues, this section of the literature review examines the environment of the hospital from the perspective of trustees in their pursuit of FA/IC issues. The environment in question is divided among three topical areas: unique organizational characteristics of hospitals; legal, legislative, and policy issues; and prior research. The contents of these three topical areas form the backdrop against which much of the empirical evidence retrieved from hospitals and presented in Chapters IV and V may be compared.

Unique Organizational Characteristics

Katz and Kahn (76) offer a distinction between economic and maintenance organizational structures. Economic or productive organizations are concerned with the generation of profit that results from dealing in goods and services in the marketplace. These organizations are characterized, for the most part, by their immediate accountability for operating costs and efficiency and by the principle of maximization. Hospitals, as maintenance organizations, although somewhat resembling industrial organizations, are devoted to a restoration function so that people might resume their social roles in other organizations and in society at large.

Some of the characteristics of hospitals as maintenance organizations that set them apart from industrial firms and that are germane to this study are discussed. First, no single line of authority or hierarchical chain of command exists in many hospitals, so a delicate balance of power is maintained between the board of trustees, the administration, and the physicians (45, 46, 76, 78). This lack of a

clear authoritative line is associated with system strain caused by intergroup tensions (61, 76). The establishment of a committee by the board to address FA/IC issues may be viewed as a shift of power toward the committee and the board as the latter has decided at its discretion to devote more time and effort to FA/IC activities.

Second, hospitals are highly complex institutions that render numerous services both professional and otherwise. This requires the mutual cooperation of people from professional, semiprofessional, and nonprofessional ranks within the hospital's environment (62, 76). An example of this is the unique third-party reimbursement system where insurance companies process claims and pay hospitals for services rendered to patients covered by insurance.

Further complicating the reimbursement structure is the fact that individuals having insurance with commercial carriers reimburse provider hospitals based upon reasonable charges which correspond to reasonable selling price. The Medicare program (Part A), on the other hand, reimburses hospitals through fiscal intermediaries, mainly Blue Cross Plans under contract, based upon the reasonable cost of the items and services furnished. The intermediary is responsible to ensure that providers' reimbursable costs are determined in accordance with Medicare regulations; they examine the financial and statistical records to the extent deemed necessary. The various degrees of scrutiny given a cost report include a desk review, a limited examination or a full scope audit (67). Clearly, these activities are complex and also fall within the greater FA/IC activities that could be undertaken by the full board or one of its committees. In addition, the auditor for the fiscal intermediary

is an independent professional who could act in a consultative capacity to the board in matters pertaining to Medicare reimbursement and cost control.

Hospitals, as maintenance organizations, have been slow to respond to change occurring in the surrounding society even though some hospitals have undergone radical reform administratively (76). Tremendous strides have been made in reforming the corporate boardroom; these include installing audit committees and substantially increasing the number of independent directors--those free of a conflict of interest. Little is known whether not-for-profit hospital boards have made corresponding changes. Change entails not only modifications of the board structure used to address FA/IC issues but the functions actually pursued and perceptions of how effectively functions are undertaken.

As indicated by membership lists of the Institute of Internal Auditors (IIA) and the Hospital Financial Management Association, internal auditors number only 115 and 237 respectively (70, 130). This is of the more than 7,000 hospitals in the country. This paucity of hospital internal auditors is referred to in correspondence between an executive of the IIA and this writer (108). Lack of an independent internal audit function has an important ramification; opportunities are lost for the board to access information useful for their oversight of accounting and administrative controls. Information gained from conferences with and reports submitted by an independent internal auditor would, it is assumed, increase the visibility of consequences and power of board members.

It is commonly held that leadership begins at the top of the organization and the area of internal controls and auditing appears to be no exception (26). Mautz and Neumann observed that a characteristic of a maturing audit committee is increased attention to the internal audit function that sometimes manifests itself in the initiation of such a function where none previously existed (88).

Legal, Legislative, and Policy Issues

Within the health care field, boards of trustees are charged with overseeing the well-being of their respective hospitals; this charge is clearly based on law (140). In addition, court decisions have reinforced and articulated the fiscal accountability role of trustees and forced more aggressive guardianship (104, 125). Beyond the basic management functions of maintaining supervision and vigilance over the welfare of the whole corporation, Warren has identified the board's specific duty of providing adequate financing of patient care and assuming business-like control of expenditures (140). The governing board's responsibility to select and properly supervise the administrator's management of the hospital is also reflected in a federal court case (104). Akin to legal and legislative issues is a policy statement of the American Hospital Association which, in part, defines the acts of management for the governing board as:

> . . . delegation of authority and the sharing of responsibility and accountability with the chief executive officer and the medical staff for delivery of high-quality health care services; effective, efficient, and economical utilization of the institution's resources and services; and full execution of operating policy. Delegation of authority for the operation of the institution to the chief executive officer is essential to achievement of effective management. . . . His effectiveness requires that the governing board carefully delineates his

> authority, responsibility, and accountability and recognize that he is the person ultimately responsible to the board for the total operation of the hospital (15).

Data used by boards as a medium for accountability of hospital managements include budgets and other fiscal reports (29, 41, 140). Reports composed of internal data serve as a basis of comparison with data generated in previous periods as well as with external data from institutions having similar demographic characteristics. Hospital boards cannot be expected to pursue their substantial responsibilities without assistance, some provided by internal personnel such as the financial vice president, internal auditor and in-house attorney (52, 84, 88, 92). Boards can also turn to outsiders for assistance, some of whom can provide impartial and sophisticated analysis of complicated problems. Outside experts include the independent certified public accountant, the external attorney, and the auditing representative of the fiscal intermediary. The study at hand presents and analyzes data on the extent to which boards or their committees both examine reports and meet with experts who have prepared these same reports.

The existence of fraud and abuse in hospitals is reported by a number of sources (120). A former Department of Health, Education and Welfare (HEW) Secretary, the agency which preceded the Department of Health and Human Services (HHS), estimated fraud and abuse in the Medicaid program alone to be $750 million, while a report from HEW's Office of Inspector General estimates fraud, abuse, and waste within that agency's programs to be as much as $6.3 billion for fiscal year 1977 (44). The frequency of fraud and abuse complaints in hospitals from 1969 to June 30, 1980 numbered 4,174 and 2,359 respectively (96).

The American Hospital Association views hospital management as being obligated to institute systems to prevent the loss of hundreds of millions of dollars each year through fraudulent manipulation (15). Similarly, the Bureau of Health Insurance within HEW recognizes the need for more self-initiated work regarding fraud and abuse by hospitals, nursing homes, and home-health agencies (43). Boards of trustees, as policymakers within their respective institutions, are being called upon to see that adequate accounting and administrative internal control systems are developed and monitored.

Placing this discussion of fraud and abuse in hospitals within the environmental context of hospitals, it has been shown that the less munificent the organization's environment, the more effort the organization will exert to obtain resources from that environment and, thus, the more likely it will engage in legally questionable activities (123).

In an attempt to face the problem mentioned above, the government passed Public Law 95-142, The Medicare and Medicaid Anti-Fraud and Abuse Amendments of 1977, which include, as Section 19, the System for Hospital Uniform Reporting (SHUR) (135). Most large CPA firms opposed SHUR because of its implementation cost, preoccupation with excessive detail, and/or its inability to achieve its purpose of significantly detecting fraud and abuse (55). Unlike Section 102 of the Foreign Corrupt Practices Act of 1977 (136), which specifically requires publicly held companies to maintain an adequate system of internal control, Public Law 95-142 contains no such provision. Not-for-profit hospitals are excluded from the domain of the Foreign Corrupt Practices Act via Section 12 of the Securities Act of 1933 (133).

The opposition to SHUR was so strong that the Health Care Financing Administration within HHS developed the Annual Hospital Report (AHR). AHR was developed to require cost accumulation and reporting on a functional basis for purposes of planning, measuring, and comparing the efficient and effective use of services in hospitals (68).

Comparable cost data shall be obtained for a number of reasons, among them to provide hospitals with comparative data to facilitate more productive use of resources, to support cost containment objectives, and to improve the capacity to detect fraud and abuse. Whether or not AHR is adopted, it is opposed within the industry. The very fact that it is proposed implies that boards of trustees must be attentive to FA/IC issues.

Accentuating the rapidly evolving hospital financial reporting environment and, therefore, the need of board members to keep abreast of changes of FA/IC issues is Hospital Financial Management Association's Position Statement No. 3. Statement No. 3 questions the ability of basic financial statements to present and explain the nature and effects of fiscal pressures bearing on hospitals (71). The statement points out that while the board's responsibility of establishing goals and objectives is aided by current and historical financial information, its responsibility for monitoring management's progress toward these goals and stewardship of resources is similarly achieved with financial information. The governing board's need to understand fiscal pressures does not appear as consistently well satisfied. This only seems to augment Statement of Financial Accounting Concepts No. 1, which states

that: "Efforts may be needed to increase the understandability of financial information" (57).

Conflict-of-interest problems among boards of trustees is a topic that has legal, legislative, and policy overtones. After substantial trustee conflict-of-interest came to light in the Stern Case (125), the General Accounting Office of the United States (GAO) undertook a study of this subject. Their report (42) revealed that overlapping interests were found to exist in 17 of 19 hospitals studied. The report noted that since overlapping interests of hospital governing board members or key employees may detrimentally affect hospital costs and general administration, such arrangements should be disclosed. The accounting profession continues to deal with difficulties associated with determining and reporting upon conflict-of-interest (5). A survey of 143 health care institutions done in 1979 revealed less than 40 percent had a conflict-of-interest policy (98).

The entire purpose of the boards' pursuit of FA/IC issues is to monitor the economic activities of the entity in such a way as to assess progress toward previously set goals or, if necessary, call for a redeployment of resources or energies. Where board members are not independent of either the entity or its managers, less than an independent and objective pursuit of the board members' responsibilities can be anticipated.

Prior Research

To conclude this section, four research studies examining hospital boards are briefly reviewed. Following a brief summary of each study, its relationship to the research undertaken here is described.

Using a base of four cases of maladministration of hospital assets, Cerbone (38) concluded that the proper administration of hospital funds and property by their boards is achieved only when there is adequate supervision and enforceability of the acts of trustees. This would be achieved through the creation of an administrative agency in each state to supervise the voluntary hospital system. The increasing amounts of government funds found in the budgets of voluntary hospitals call for more adequate public controls and accountability to prevent the misapplication of funds, improper use of monies, embezzlement, and improper conversion of other assets for private gain. The research study undertaken here might show boards of trustees to be pursuing FA/IC issues and acting in such a manner as to mitigate the need for creating an administrative agency in each state to supervise voluntary hospitals.

Many hospitals defend their rates on the grounds of simply recovering costs. However, hospitals have been unable to defend their position by demonstrating a control of costs. Berkshire (29), using behavioral analysis, sought to identify characteristics at institutions that were relatively successful in their efforts of cost stewardship. He assumed that the more cost management procedures in place, the more cost-effective the management. Procedures inventoried included budget preparation, reporting of actual costs, calculation of variances, and administrative efforts to control variances. The two characteristics, in order, which showed the greatest performance difference were efforts by the governing boards to control cost variances and the reporting of actual costs to top management. Subjects employed in the Berkshire

study were limited to the state of California. The research study undertaken here is a national study and presents data on which financial accounting and internal control functions are pursued, how important these functions are perceived to be to trustees, and how effectively trustees perform these functions.

Carpenter (36) set out to develop a prescriptive role model for governing boards of public community hospitals by ascertaining the perceptual views of administrators, physicians, medical chiefs of staff, and trustees with regard to the responsibilities, involvement, and performance for selected functions. Trustees, beyond being viewed as "owners" of public community hospitals, faced an overall lack of agreement as to their role as perceived by respondent groups. All groups did agree, however, with the increased importance played by governing boards. The research undertaken here determines the extent respondents perceive trustees to be in agreement on the importance of pursuing one or more FA/IC purposes and feel similarly that selected FA/IC functions would present some evidence of a consensus on the role of trustees.

Ritvo (107), drawing on open system literature, viewed the hospital board of trustees as the unit with prime responsibility for relating the organization to its external environment. His research centered on understanding the problem identification factors at the board level and concluded that both the structure and the focus of the board's committees were significantly related to the types and sources of data used in recognizing problems of concern. The research study undertaken here provides the opportunity to compare the various board

structures employed to address FA/IC issues to determine if differences exist as to the extent FA/IC functions are performed.

D. SUMMARY

In the past, governing boards have been portrayed as not living up to their responsibilities. The pursuit of their duties in a responsible manner requires that they attain the necessary power and, in so doing, confront the following factors. Management retains power because they control the flow and shape of information given to the board, as well as the kinds of matters they will discuss. Somewhat mitigating management's power is the capacity of the information preparer to circumvent management's ability to solely control the flow and shape of information provided to the board. Of the three possible ways of communicating information, written, oral, or a combination of the two, the latter affords the opportunity to clarify and expand upon material in the written report. A committee structure permits an intensive treatment of a subject that the full board would only briefly have time to consider because of its many time constraints.

The interaction of governing boards of for-profit corporations with FA/IC issues has, over the last ten to 15 years, grown as a result of the creation and implementation of the audit committee concept. Professional, regulatory, and legislative bodies are all proponents of the concept. The AICPA stated a belief that an audit committee could be very helpful to members of boards and independent auditors in carrying out their duties. A similar recommendation has been made by the American Bar Association. In 1977, the NYSE adopted a requirement that

member firms establish audit committees. The SEC has, on numerous occasions, endorsed the establishment of audit committees, its rationale being that such committees assist in affording the greatest possible protection to investors who rely upon financial statements. The Metcalf and Moss Committees both called for a committee of the board composed of non-officer directors to arrange for the particulars of the audit and have available to them independent expert advisors.

Prior research on audit committees, both descriptive and normative, in the for-profit sector is plentiful. A pioneering study, and the one after which this research is modeled, was done by Mautz and Neumann in 1977. Their study identified the extent to which audit committees exist, committee purposes and functions, and the three phases in the operational evolution of the audit committee concept.

Not-for-profit hospitals have unique organizational characteristics. They have historically devoted their attention to the restoration function of individuals and did not deal in the marketplace concepts of costs, efficiency, and profit maximization. Three additional characteristics set them apart from industrial firms. There is no single line of authority, so a delicate balance of power is maintained between the board of trustees, the administration, and physicians. Hospitals are highly complex organizations that require the mutual cooperation of all in positions of responsibility. Lastly, as maintenance organizations, they have been slow to respond to changes occurring in the surrounding society.

Written into both statutes and court decisions, hospital trustees are charged with fiscal accountability and aggressive guardianship of

institutional resources. Trustees cannot do this alone; rather, they are expected to turn to experts inside and outside the organization for assistance. Three issues significantly impacting on hospital resources are the existence of fraud and abuse, cost containment, and conflict-of-interest problems. Industry and government spokespersons see a need for hospitals to initiate and monitor internal control systems to detect and prevent the loss of resources due to fraud and abuse. Containing costs requires the timely and accurate accumulation of meaningful, comparable financial information that discloses the nature of fiscal pressures bearing on hospitals. Lastly, board members interested in pursuing their own interests at the expense of the hospital have been found to exist among the ranks of trustees.

Empirical research is lacking on whether, how, and to what extent hospital boards of trustees address FA/IC issues. However, prior research has disclosed the existence of maladministration of hospital resources by trustees, the effectiveness of the efforts of trustees to control cost variances, the increased importance of the role played by trustees, and the usefulness of a committee structure of the board to assist trustees in identifying problems.

The research study undertaken here provides the opportunity to compare the various board structures employed to address FA/IC issues to determine if differences exist as to the extent FA/IC functions are performed.

CHAPTER III

METHODOLOGY

This chapter contains an elaboration of the methodological approach briefly discussed in the first chapter. Major topics presented include: 1) overall research objectives, 2) methodological approach, 3) populations, 4) sample selection, 5) pilot study, and 6) hypotheses and their subsequent analysis.

A. OVERALL RESEARCH OBJECTIVES

The various sections of this chapter provide a discussion of the elements employed in investigating the following two broad research questions which were presented earlier:

1. Is there a difference between the way hospital boards of trustees address FA/IC issues and the way corporate boards address similar issues as described in the latest Mautz and Neumann study?
2. Is there a difference between the way hospital boards of trustees address FA/IC issues when hospitals are compared on the basis of identifiable institutional attributes?

The first research question compares hospitals with corporations but limits such comparisons only to organizations whose boards have some form of a committee structure to address FA/IC issues. With regard to the second research question, one identifiable institutional attribute,

namely, board of trustee structure utilized to address FA/IC issues, is employed as the basis for grouping and comparing hospitals on all issues subsequently discussed. The board of trustee structures employed to deal with FA/IC matters include the full board, multiple committees, joint committee, or sole standing committee.

Those hospitals whose board of trustees have no committee structure to address FA/IC issues deal with such matters only as a full board. Multiple standing committees exist when more than one committee of the board share FA/IC duties. A joint standing committee is one that fulfills all of the FA/IC duties and also acts in another capacity such as with personnel and labor matters. A single standing committee exists when one committee is appointed to deal exclusively with FA/IC matters.

Table 3.1 ties each of the broad research questions to the topics investigated within each question. In addition, each topic is associated with questions in the survey instrument used to gather the hospital data. The survey instrument is discussed in a subsequent section of this chapter.

The primary topic covered within both research questions is the examination of purposes for pursuing FA/IC issues and the FA/IC functions undertaken. The term "purposes" is used to describe the reasons for pursuing FA/IC issues and "functions" relates to the specific duties performed. Functions is extended to include not only those duties actually performed but the extent to which it is perceived that they are effectively performed. Changes in the composition, responsibilities, or other characteristics of boards over the past five years are also examined.

TABLE 3.1

ISSUES ADDRESSED WITHIN BROAD RESEARCH QUESTIONS

FA/IC Topics Examined Within Each Research Question	Broad Research Questions Comparing: Hospitals and Corporations	Broad Research Questions Comparing: Hospital Institutional Attributes	Survey Instrument Question Number	Hypothesis Number	Measurement Level of Data	Statistical Tests: K = 2	Statistical Tests: K = 4
Purposes and Functions:							
Purposes for addressing FA/IC issues	X	X	11	1	ordinal	Mann-Whitney U Test	Kruskal-Wallis
FA/IC functions assigned	X	X	12	2	ordinal	Mann-Whitney U Test	Kruskal-Wallis
Effectiveness of FA/IC functions performed	X	X	12	3	ordinal	Mann-Whitney U Test	Kruskal-Wallis
Changes in board characteristics	X	X	4, 5, 8, 13	4	nominal ratio	Chi-square; t-test	Chi-square; F-test
Structural Practices and Procedures:							
Size and composition of board and committees	X	X	6, 7	5	nominal ratio	Chi-square;	Chi-square; F-test
Term of appointment	X	X	6	5	ratio		F-test
Number of meetings by type	X	X	6	5	ratio		F-test
Independence of board members	X	X	14	6	ordinal	Mann-Whitney U Test	Kruskal-Wallis
Strengthening the Trustee's Role:							
Meetings with FA/IC experts		X	16	7	ratio	t-test	F-test
Utilizing autonomous staff of FA/IC experts		X	15	8	ordinal	Mann-Whitney U Test	Kruskal-Wallis
Audit Functions:							
Utilizing a CPA firm		X	9	9	nominal	Chi-square	Chi-square
Utilizing an internal audit function		X	10	10	nominal ratio	Chi-square; t-test	Chi-square; F-test

Structural practices and procedures is the second topic investigated within both research questions. Areas examined include size and composition of the boards and committees, term of appointment, and number of meetings. A perceptual question concerning the acceptability of personal characteristics of board members who address FA/IC issues is also covered. Acceptability is delimited to situations possibly impacting on the ability of an individual to independently (i.e., objectively) pursue FA/IC issues.

The third and fourth topics investigated concern the second broad research question, the characteristics describing the way hospital boards of trustees address FA/IC issues. The third topic deals with strengthening the non-officer trustees' role; an inquiry is made of the number of meetings the board has with various individuals associated with the hospital's FA/IC activities. The extent that it is perceived feasible for the board or its committee structure to utilize an independent staff of technical specialists, including the internal audit staff, is also explored.

Hospitals utilization of audit services is the last topic covered in this study. Audit services are divided between those provided by an internal audit staff and those provided by an independent certified public accountant.

The concluding step in the examination of the second research question, and one which is not tied to any particular topic, is a comparison of board structure employed to address FA/IC issues and the other identifiable institutional attributes to determine if dependency exists. These other institutional attributes include: bed size,

utilization of a management contract, size of the external accountant's firm, and geographical location of the hospital.

B. METHODOLOGICAL APPROACH

As the data needed for this research were not readily available, a data collection instrument was developed. A copy of the questionnaire is presented in Appendix A. Employing this methodology affords the opportunity to research a widely scattered group of select individuals at a low unit cost and to provide the targeted individuals with the ability to respond at their leisure.

This form of survey research is not without shortcomings. Developing or retrieving a timely and accurate mailing list of individuals within the desired population is difficult. The questionnaire must be developed so as to communicate the intended message in a clear and succinct manner. The recipients, at their option, can avoid answering one or more of the questions and can even disregard the entire questionnaire. If a number of individuals possessing similar characteristics or motives refuse to respond to the survey instrument, a potential non-response bias is introduced.

The instrument employed in this research is based, in part, on others' work. Since part of the study is concerned with comparing hospital and corporate data a suitable and common group of questions was found to exist in the Mautz and Neumann study discussed earlier (88). The major questions extracted from the Mautz and Neumann study dealt with the purposes and functions of a corporate board's addressing FA/IC

issues via an audit committee. These and the other questions in the instrument are discussed in a later section of this chapter.

C. POPULATIONS

Individuals selected from two populations, corporate chief executive officers and hospital chief financial officers, served as providers of the data employed in this research. The organizational affiliation of these individuals was the primary criterion used in the sample selection process. Data from corporate chief executive officers were gathered in 1976 by Mautz and Neumann. The corporate chief executive officers were from the Fortune 1000 largest U.S. industrial corporations plus the 50 largest commercial banking, life insurance, diversified financial, retailing, transportation, and utility companies.

The population of hospital chief financial officers (CFO's) comprised individuals who were employed by voluntary short-term general hospitals and were members of the HFMA. The rationale for using CFO's and voluntary short-term general hospitals is set forth in the following paragraphs.

Chief financial officers have a substantial relationship with boards of trustees in their pursuit of FA/IC issues, as well as with the processes of financial accounting, reporting, and internal controls within their respective institutions. Their interaction with the board of trustees or a select committee thereof takes the form of supplying and reviewing information, answering questions, and generally acting in an advisory capacity. CFO's are a relevant group since they are knowledgeable about financial affairs and hold positions of responsibility

and authority within their respective institutions. As the key financial employees at their institution, their attitudes concerning the direction and emphasis of the boards' treatment of FA/IC issues are important. This is supported by other researchers (88, 142).

Hospital chief financial officers comprise approximately 2,000 individuals, or 16 percent, of the HFMA membership. The Director of Membership Services of HFMA provided the names of HFMA members who were CFO's.

The American Hospital Association categorizes hospitals according to the kind of service or treatment provided by them. These categories include short-term general; long-term or convalescent; and psychiatric, tuberculosis, or other specialty hospitals. Short-term or acute care hospitals have an average length of patient stay of under 30 days. The term "general" denotes that patients are admitted for a wide range of illnesses, thereby excluding specialty hospitals.

Voluntary short-term general hospitals were selected for a number of reasons. First, voluntary hospitals consist of all privately owned, non-profit community hospitals. When categorized by ownership type, these are by far the largest group of hospitals, comprising some 36 percent (2,500) of approximately 7,000 hospitals in this country (16, 60). Other ownership types include federal, state, and local government; proprietary; and church-related.

Secondly, voluntary hospitals within the broader non-profit category were selected because the study concentrates on the governing board of each entity. Since voluntary hospitals are free of any affiliation with other institutions, the board of trustees of these

institutions are completely and ultimately responsible in the same sense as the board of directors of a for-profit organization. In turn, this body should be accountable to its community since the hospital was built through donations from people within the community (60). These same people within the community are recipients of the hospital's services. Community members in cases similar to this have been broadly categorized as investors (28, 82, 89). Other types of hospitals are omitted from this study because of the potential confounding influences that affiliations with larger organizations may have on the hospital board of trustee structure or operations within the entity being studied. For example, the board may be accountable to the board of another organizational unit and, therefore, not have complete or ultimate responsibility for the hospital.

Finally, voluntary hospitals were selected because their primary goal is good patient care, as compared to teaching hospitals, whose primary goal is instruction. Quality patient care at a reasonable price is one of the basic goal objectives of our society.

The American Hospital Association's Guide (16) was used to identify voluntary short-term general hospitals. In turn, the names of CFO's received from HFMA were paired to the list of voluntary short-term general hospitals. This pairing resulted in the identification of 798 CFO's of voluntary short-term general hospitals. Approximately one-third of the population of voluntary short-term general hospitals was placed in the sample frame as a result of having been identified with an HFMA chief financial officer.

D. SAMPLE SELECTION

The previous section described the corporate and hospital sample frames. From these sample frames, the samples were drawn. Corporations were stratified by size and type of business. The corporation sample frame consisted only of the largest corporations comprised of the Fortune 1000 U.S. industrial corporations plus the 50 largest commercial-banking, life insurance, diversified financial, retailing, transportation, and utility companies. Mautz and Neumann indicate that 1,274 corporate chief financial officers were sent questionnaires. The authors made no other mention about the sample frame or the technique used to identify those individuals to whom questionnaires were sent.

A stratified random sample was taken from the sample frame of voluntary short-term general hospitals to recognize important institutional attributes known at the time the sample was taken. Bed size and geographical region were the two institutional attributes used. Six bed size categories were used, and with the exception of the first and last, each contains 100 beds. Nine geographical regions of the country were used; each region contains from three to nine states. The categorization of geographical regions was developed by the U.S. Bureau of the Census (75). The number of bed size and geographic categories used ensured adequate sampling consideration of hospitals represented in various strata of the cross-classification.

Table 3.2 is a six-by-nine matrix. Each cell of Table 3.2 contains the sample frame size and sample size respectively. Judgment was used to determine the overall sampling percentage, as well as what stratified sampling percentages would be used. The high use of

TABLE 3.2

QUESTIONNAIRE SAMPLE FRAME AND SAMPLE SIZE BY GEOGRAPHICAL REGION AND BED SIZE CATEGORIES

Bed Size Category	New England		Middle Atlantic		East N. Central		West N. Central		South Atlantic		East S. Central		West S. Central		Mountain		Pacific		Row Totals			
	A[a]	B[b]	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	B	A	%	B	%
0-99	14	11	15	12	23	18	6	5	11	9	1	1	2	2	4	3	11	9	87	11	70	13
100-199	22	13	34	20	43	26	16	10	28	17	5	4	9	7	10	8	35	21	202	26	126	24
200-299	22	13	42	25	49	29	8	6	27	16	6	5	6	5	7	6	16	10	183	23	115	22
300-399	21	13	27	16	23	14	7	6	21	13	2	2	4	3	6	5	10	8	121	15	80	15
400-499	6	5	28	17	22	13	5	4	12	7	2	2	2	2	1	1	9	7	89	11	60	12
>500	8	6	34	20	32	19	10	8	13	8	3	3	8	6	1	1	5	4	114	14	75	14
Column Totals:																						
Number	93	61	180	110	192	119	52	39	112	70	20	18	32	26	29	24	86	59	796		526	
%	12		23		24		6		14		2		4		4		11			100		
%		12		21		23		7		13		3		5		5		11				100

[a] A = sample frame of voluntary short-term general hospitals from which the sample was drawn.

[b] B = sample size.

questionnaires to gather data from hospitals was the persuasive factor in selecting an overall sampling rate of 66 percent. It was felt this would provide an acceptable number of responses for analysis, given the customarily high nonresponse rate.

Selection of stratified sampling percentages was done after examining the sampling frame size per cell. Larger sampling percentages were applied to cells having small sample frames so as to increase the probability of representation from those cells. Specifically, a survey (100 percent sample) was taken for cells with less than three hospitals. Cells with between four and ten hospitals were sampled at an 80 percent rate. When greater than ten hospitals were in a cell, a sampling rate of 60 percent was applied with one exception. Eighty percent was applied in the 0-99 bed size category because it had the least number of hospitals.

In summary, the range of sample percentages for bed size categories was 12 percent to 24 percent and for geographical regions, 3 to 23 percent. A sample of 526 (66 percent) was selected from the sample frame of 796 hospitals.

E. PILOT STUDY

The quality of a questionnaire is denoted by, among other things, the presentation of clear, concise questions. To increase the overall quality of the questionnaire, a pilot study was conducted.

Eight hospitals were randomly selected from 19 Tennessee hospitals whose CFO's were members of the HFMA. Each CFO was sent a package containing the proposed questionnaire, cover letter, and a one-page list of

the pilot study questions. A brief note accompanying the package of materials requested the proposed cover letter be read, the questionnaire completed, and answers given to the pilot study questions. The pilot study included questions concerning the length of the survey instrument, the time required to complete it, items in the instrument considered extraneous, and the understandability of the questions.

Five pilot study packages were returned. Apparent inconsistencies in responses to survey items and problems identified via the pilot study question sheet were followed up with phone calls to respondents. The final draft of the survey instrument and cover letter reflects the deliberate effort to correct errors and incorporate suggestions which arose during the pilot study process.

F. HYPOTHESES AND THEIR SUBSEQUENT ANALYSIS

This section contains the presentation and discussion of the hypotheses and the research approach employed in analyzing the data related to each topical area within the broad research questions. The hypotheses are stated in null form. The hypotheses are followed by a discussion of the techniques employed in analyzing the data. Table 3.1, page 39, relates each hypothesis, the data's measurement scale, and statistical test employed to a topic examined within each broad research question.

Hypotheses

As many of the topics studied in this research are common to both broad research questions, to duplicate the presentation of the research approach undertaken would be redundant. For that reason, the hypotheses

tied to a topic common to both broad research questions will be presented simultaneously; the hypotheses on the left, labeled "a," relate to the first research question dealing with various comparisons made between hospitals and corporations, while the hypotheses on the right, labeled "b," relate to the second research question dealing with various comparisons made between hospitals categorized by board structure employed to address FA/IC issues.

It is again worth noting that the first research question dealing with comparisons between hospitals and corporations, two independent groups, is done only with organizations whose board of trustees or directors have a committee structure to address FA/IC issues. Hospitals were excluded when the full board was the only board structure to address FA/IC issues. The second research question compares hospitals based upon the board structure utilized to address FA/IC issues.

The hypotheses are as follows:

H_o: 1(a)

There is no difference between hospitals and corporate FA/IC board committee structures when compared on the basis of the distribution of responses as to the importance of each purpose for pursuing FA/IC issues.

H_o: 1(b)

There is no difference between hospital board structures employed to address FA/IC issues when compared on the basis of the distribution of responses as to the importance of each purpose for pursuing FA/IC issues.

H_o: 2(a)

There is no difference between hospital and corporate FA/IC board committee structures when compared on the basis of the distribution of responses as to the importance of each FA/IC function undertaken.

H_o: 2(b)

There is no difference between hospital board structures employed to address FA/IC issues when compared on the basis of the distribution of responses as to the importance of each FA/IC function undertaken.

H_o: 3(a)

There is no difference between hospital and corporate FA/IC board committee structures when compared on the basis of the distribution of responses as to the effectiveness of each FA/IC function undertaken.

H_o: 3(b)

There is no difference between hospital board structures employed to address FA/IC issues when compared on the basis of the distribution of responses as to the effectiveness of each FA/IC function undertaken.

H_o: 4(a)

There is no difference between hospital and corporate FA/IC board committee structures when compared on the basis of changes in the composition, responsibilities, or characteristics which describe how FA/IC issues are addressed.

H_o: 4(b)

There is no difference between hospital board structures employed to address FA/IC issues when compared on the basis of changes in the composition, responsibilities, or characteristics which describe how FA/IC issues are addressed.

H_o: 5(a)

There is no difference between hospital and corporate FA/IC board committee structures when compared on the basis of each identifiable administrative characteristic.

H_o: 5(b)

There is no difference between hospital board structures employed to address FA/IC issues when compared on the basis of each identifiable administrative characteristic.

H_o: 6(a)

There is no difference between hospital and corporate FA/IC board committee structures when compared on the basis of respondents' perceptions as to the acceptability for FA/IC committee membership of individuals possessing certain personal characteristics.

H_o: 6(b)

There is no difference between hospital board structures employed to address FA/IC issues when compared on the basis of respondents' perceptions as to the acceptability for FA/IC committee membership of individuals possessing certain personal characteristics.

H_o: 7(a)

None.

H_o: 7(b)

There is no difference between hospital board structures employed to address FA/IC issues when compared on the basis of the number of meetings held with FA/IC experts.

H_o: 8(a)	H_o: 8(b)
None.	There is no difference between hospital board structures employed to address FA/IC issues when compared on the basis of respondents' perceptions as to the board structure's utilization of an autonomous staff to assist with FA/IC issues.
H_o: 9(a)	H_o: 9(b)
None.	There is no difference between hospital board structures employed to address FA/IC issues when compared on the basis of the utilization of a CPA firm's services.
H_o: 10(a)	H_o: 10(b)
None.	There is no difference between hospital board structures employed to address FA/IC issues when compared on the basis of the utilization of an internal audit function.

Hypothesis number 11 is not related to any particular topic, although it does fall within the parameters of the second research question. This hypothesis concerns a comparison of the board structure employed to address FA/IC issues, one identifiable institutional

attribute, with each other institutional attribute identified. These include bed size, utilization of a management contract, size of the external accountant's firm, and geographical location of the hospital.

H_o: 11(a)	H_o: 11(b)
None.	There is no difference between hospital board structures employed to address FA/IC issues and the hospital's other identifiable institutional attributes.

Analytical Methods

A variety of techniques are employed in analyzing the data. These techniques range from a simple visual scanning of frequency counts to more formal parametric and nonparametric statistical tests. The former is valuable in identifying obvious trends, outliers, and rankings, while the latter serves to, among other things, identify whether groups of data are from similar populations. The following discussion concentrates upon the statistical tests used.

Selection of a statistical test depends upon the user's objective, which is usually stated in the form of an hypothesis, the measurement scale of the data being tested, the number of the groups or sets of data being analyzed, and whether or not they are independent from one another. When these characteristics are associated with each topic examined within the two board research questions presented earlier, only one characteristic is different, namely, the number of groups. The first research question compares two independent groups, hospitals and

corporations; the second research question compares four independent groups, the four types of board structures employed to address FA/IC issues. Independence refers to the fact that groups compared do not have common members. Given that the number of groups is the only characteristic which distinguishes the basis for selection of a statistical test for hypotheses related to topics examined, the subsequent discussion of statistical tests is related to: 1) the objective for selecting a test, and 2) the measurement scale of the data being tested. The statistical tests discussed here were done on a Hewlette-Packard 3000 computer system using the second edition through release 8 of Statistical Package for the Social Sciences (SPSS) (72, 97). Where variations and options in the application of SPSS statistical methods are available, those employed in this research project are presented.

An overview of both the objective of hypotheses and measurement scales of the data in this research are presented as a basis upon which to later build a discussion of the statistical tests to be used. The objective of the hypotheses presented is to determine if the groups in question are from different populations. Univariate statistical tests are employed in analyzing the data related to each hypothesis. Univariate refers to a single measurement on each of the n sample objects or several measurements on each of n observations with each variable being analyzed separately. The three measurement scales used in this research are the nominal, ordinal, and ratio scales. The nominal measurement scale classifies objects, persons, or characteristics by the assignment of numbers, letters, or symbols to each classification. Frequency counts serve as the basis for comparing characteristics between groups.

The ordinal measurement scale encompasses the attribute of the nominal scale and, in addition, adds the dimension of a relationship, order, or ranking among categories although the notions of equal distance between categories in the ranking is lacking. The ratio measurement scale possesses the attributes of both the nominal and ordinal scales; it considers categories to be equidistant from one another and designates zero as the true absence of the quality or characteristic in question. Of the three measurement scales described, only the ratio scale is truly numerical and allows for arithmetic manipulation by addition, subtraction, multiplication, and division. This numerical quality is one of the characteristics essential for utilizing parametric statistical tests. Conversely, when the data are not truly numerical and simultaneously fail to meet the distribution tests of normality and equality of variance, then nonparametric tests must be employed (119).

The Kruskal-Wallis one-way analysis of variance by ranks is used to determine whether all ordinally scaled $k > 2$ groups are from the same population. It is the most efficient of the nonparametric tests for $k > 2$ independent samples having a power efficiency approximately 95 percent of the parametric F-test (119). Computationally, the scores from the k samples are ranked in a single series. The rank sum is then found for each separate group. The Kruskal-Wallis test statistic H approximates a chi-square distribution with $df = k - 1$ and determines the likelihood of whether these sums of ranks are from the same population. SPSS provides an H (chi-square) statistic and a corresponding significance level corrected for ties. The formula, corrected for ties, is:

$$H = \frac{\frac{12}{N(N+1)} \sum_{j=1}^{k} \frac{R_j^2}{n_j} - 3(N+1)}{1 - \frac{\Sigma T}{N^3 - N}}$$

where: k = the number of samples;

n_j = the number of cases in the j^{th} sample;

$N = \Sigma n_j$, the number of cases in all samples combined;

R_j = sum of ranks in j^{th} sample;

$\sum_{j=1}^{k}$ = sum over the k samples; and

$T = t^3 - t$, when t is the number of tied observations in a tied group of scores.

The application of the Kruskal-Wallis test corresponds to the Mann-Whitney U Test except the former is applied to more than two groups. Specifically, Kruskal-Wallis is used to test for differences between the four hospital board structures concerning their purposes for addressing FA/IC issues and FA/IC functions performed. Two questions dealing with the independence of board members as it relates to their pursuit of FA/IC issues and the possible utilization of autonomous staff to assist the board with FA/IC duties are also examined. Where a significant difference is found to exist when Kruskal-Wallis is applied to each item analyzed by the four hospital board structures, the source of the difference is determined by applying the Mann-Whitney U Test to each combination of two board structures. Six such combinations are possible.

The Mann-Whitney U Test, a nonparametric test, is used to determine whether two ordinally scaled and independent groups have been drawn from the same population. It is one of the most powerful

nonparametric tests as illustrated by its power-efficiency which approximates 95 percent of the t-test, the most powerful parametric test (119). The test employs two steps. First, the two groups are combined, and the cases are ranked in order of increasing size; then U, the test statistic, is computed as the number of times a score from one group comes before a score from the second group. With samples less than 30, SPSS computes the exact significance level for U expressed in terms of a two-tailed probability. For larger samples, U is transformed into a normally distributed statistic Z corrected for ties, and the two-tailed probability is given. The rationale for the test is that if the samples are from the same population, the distribution of scores from the two groups in the ranked list will be random, while a non-random pattern will be indicated by a large U value.

The formulas for determining U when smaller and larger samples are used are respectively:

$$\mu = n_1 n_2 + \frac{n_1^*(n_1^* + 1)}{2} - R_1^* \qquad ^*\text{or } n_2(n_2 + 1),\ R_2$$

$$Z = \frac{\mu - \frac{n_1 n_2}{2}}{\sqrt{\frac{(n_1)(n_2)(n_1 + n_2 + 1)}{12}}}$$

where: R_1 = sum of the ranks assigned to group whose sample size is n_1;

R_2 = sum of the ranks assigned to group whose sample size is n_2;

n_1 = sample size of group one; and

n_2 = sample size of group two.

As demonstrated in Table 3.1, the Mann-Whitney U Test is used extensively in testing for differences between corporations and hospitals, k = 2, particularly as concerns purposes for pursuing FA/IC issues and related functions. A question dealing with the independence of board members as it relates to FA/IC issues is also examined. Beyond these comparisons between corporations and hospitals, the Mann-Whitney test is also used to test for significant differences between k = 2 hospital board structures as was described earlier.

The chi-square test is used to determine if differences exist between k = 2 and k = 4 independent groups with respect to relative frequency with which group members fall into nominally classified cells. The technique calls for structuring a table by assigning actual frequency counts to cells arranged by categories within respective groups. Next, the expected frequency of each cell is determined by multiplying the two marginal totals common to a particular cell and dividing this product by the total number of cases or overall actual frequency count. The greater the discrepancies between the expected and actual frequencies, the larger the chi-square and the greater the probability that a relationship exists between the groups. Conversely, a small chi-square value indicates the absence of a relationship. The degrees of freedom are based upon the number of rows and columns in the table, and they are used in determining the probability that a relationship exists between or among groups (119). The SPSS subprogram CROSSTABS is used to calculate the chi-square statistic and the exact probability of any relationship. The formula is:

$$X^2 = \sum_{i=1}^{r} \sum_{j=1}^{k} \frac{(O_{ij} - E_{ij})^2}{E_{ij}}$$

where: O_{ij} = observed number of cases categorized in i^{th} row of j^{th} column;

E_{ij} = number of cases expected under H_o (the null hypothesis) to be categorized in i^{th} row of j^{th} column; and

$\sum_{i=1}^{r} \sum_{j=1}^{k}$ = directs one to sum over all (r) rows and all (k) columns (to sum over all cells).

The sampling distribution of X^2 as computed above approximates a chi-square distribution with degrees of freedom df = (k - 1)(r - 1), where k = the number of columns, and r = the number of rows.

The chi-square test is applied to all nominally scaled data. Specific items within changes in board characteristics and the size and composition of boards and committees are investigated to determine if significant differences exist both between corporations and hospitals and among hospital board structures employed to address FA/IC issues. In addition, elements of the topic "audit functions" are analyzed for significant differences among hospital board structures used to pursue FA/IC matters.

The median test is a procedure for testing whether it is likely that two independent groups are from the same population and may be used whenever the scores for the two groups are at least ordinally scaled. The test is used in examining hospital and corporate data such as board and committee size, term of office, and number of meetings. Although

ratio data, the fact that corporate data were collapsed beyond a certain number required the median test be used. The test employs two steps. First, the combined median of the two groups is determined; then each group's scores are split into those above and those below the combined median. The two-tailed probability of the observed values is determined using the chi-square test statistic for large samples (72, 119). The formula for the chi-square test was previously discussed.

A single-factor, fixed-effects analysis of variance (ANOVA) is employed to initially determine whether a significant difference exists among the four hospital board of trustee structures employed to address FA/IC issues when compared on the basis of the mean value of responses to selected questions. Data used in the analysis are measured on the ratio scale and the groupings of data are independent from one another. In addition to these items, the ANOVA model assumes that the probability distribution of each group is normal and has similar variances. The critical assumption of homogeneity of variances is tested, and where not rejected the ANOVA procedure is followed in two steps. First, the F statistic is determined, and the related probability of the factor level means being unequal is examined. Secondly, when the means are found to be unequal, the two-tailed t probabilities associated with six contrasts based upon the four hospital board structures employed to deal with FA/IC issues are examined to determine the source of the overall differences in means. In these cases, the t statistics are generated using a pooled variance estimate for t (97). Where homogeneity of variance is rejected, a t statistic is generated using a separate variance estimate for each t. The SPSS subprogram ONEWAY is the vehicle employed to

compute the desired output. The Bonferroni multiple comparison method of analyzing t is used; a .02 t probability for each of the six contrasts is to be considered material. A representation of the ANOVA model is:

$$Y_{ij} = u_j + \varepsilon_{ij}$$

where: Y_{ij} = the value of the response variable in the i^{th} trial for the j^{th} factor level of treatment;

u_j = parameters;

ε_{ij} = independent, normally distributed error terms; and

$i = 1,\ldots, n_j$; $j = 1,\ldots, r$.

The analysis of a single factor study, as stated earlier, begins with a determination of whether the factor level means u_j are equal, that is $u_1 = u_2 = u_3 = u_4$. The one independent variable studied is the board of trustee structure used to address FA/IC issues.

The dependent variables subjected to the ANOVA procedure deal with questions answered in terms of a ratio scale and that fall within the following topical areas of the study: changes in board characteristics, size and composition of board and committees, term of appointment, number of regular and special meetings, number of meetings with internal and external FA/IC experts, and characteristics of the internal audit function.

The last test discussed is the Student's t-test, which is applied to ratio data for the purpose of determining whether two independent samples of corporations and hospitals differ when compared on the basis

of the mean value of responses to selected questions. Application of the t-test assumes that the populations sampled have normal distributions and equal variances. The t-test comparing means of independent samples having common variances is formulated upon a "pooled variance" computation (97). When unequal variances are present, an approximation of the t is computed. SPSS subprogram T-TEST calculates an F statistic and related probability of the equality of variances. Where the sample variance is not significantly different, a t statistic based on the pooled variance estimate is generated; whereas, a t based on the separate variance estimate is calculated when unequal variances are present (97). The formula for the t-test generated via pooled variance computation is:

$$t_{\bar{d}} = \frac{(\bar{x}_1 - \bar{x}_2)}{s_{\bar{d}}} \qquad \text{with } (n_1 + n_2 - 2) \text{ degrees of freedom}$$

where: $\bar{x}_1$ = sample mean for group one;

$\bar{x}_2$ = sample mean for group two;

n_1 = sample size group one;

n_2 = sample size group two; and

$s_{\bar{d}}$ = standard deviation for the difference of sample means.

As described in Table 3.1, page 39, the t-test is applied to all situations where ratio data are presented. The test is used where the analysis is between two groups, corporations and hospitals, as well as between multiple paired contrasts of the four hospital FA/IC board of trustees structures. Specific questions within each of the four topical areas under study are analyzed with the t-test.

Treatment of Missing Data

Cases containing missing data on a component of a question were deleted in all but three situations for purposes of performing statistical tests. These three situations are: 1) the importance of purposes for addressing FA/IC issues, 2) the importance of assigned FA/IC functions, and 3) the number of meetings held between the hospital board structure identified to address FA/IC issues and individuals inside and outside the hospital designated as experts in this area. (These three situations correspond to survey instrument questions number 11, 12, and 16.) Each of the corresponding questions on the survey instrument explicitly asked the respondents not to answer where: 1) the item was not a purpose for pursuing FA/IC issues, 2) the duty was not an assigned FA/IC function, or 3) where the FA/IC expert was not consulted. To recognize and give weight to this fact, the missing data were included in the analysis of responses to these questions. It is assumed that a purpose not pursued and FA/IC functions unassigned are unimportant. This is an assumption which applies in a static environment and which presupposes that importance and active pursuit or assignment are concomitant variables.

G. SUMMARY

This chapter has presented a description of the research design. The chapter began with a discussion of the overall research objectives. These objectives are stated in the form of two broad research questions. The first calls for a comparison of corporations with voluntary short-term general hospitals concerning the manner and extent to which

committee structures of their boards of directors and trustees pursue financial accounting and internal control (FA/IC) issues. The second has a similar thrust but limits the comparison to four boards of trustee structures used by hospitals to address these issues. These structures include the full board, multiple committees, joint committee, and a single standing committee. These broad research questions are divided among four topical areas: purposes for the board or its committee pursuing FA/IC issues and duties assigned, board of trustee structural practices and procedures, strengthening the trustee's role, and audit functions.

The data used in this research came from two sources. Hospital boards of trustee data were unavailable and therefore were gathered via questionnaires, while corporate data had previously been gathered by Mautz and Neumann (88). Hospital data were gathered by the researcher from a sample of CFO's from voluntary short-term general hospitals; corporate data were gathered by Mautz and Neumann from CFO's representing the Fortune 1000 U.S. industrial corporations plus 50 each from the largest companies representing six special industry groups. Individuals from these job categories have a substantial relationship with boards of directors and trustees who pursue FA/IC issues.

Eleven hypotheses were formulated. The first six apply to both broad research questions and encompass FA/IC purposes and functions and board of trustee structural practices and procedures. Four of the remaining hypotheses relate only to the second research question, hospital board structures; topics examined are strengthening the trustee's role and audit functions. The final hypothesis concerns a comparison of

the board structure employed to address FA/IC issues with other institutional attributes. The research is spread across four topical areas to give priority and organization to the breadth of the subject addressed. Priority is given to the purposes for pursuing FA/IC functions measured in terms of importance, and FA/IC duties assigned, measured both in terms of their importance and the effectiveness with which each is undertaken. The other areas receive substantially equal treatment but less than that given FA/IC purposes and functions.

CHAPTER IV

ANALYSIS OF RESULTS: THE MANNER AND EXTENT TO WHICH CORPORATIONS AND HOSPITALS PURSUE FA/IC ISSUES

This chapter analyzes the data associated with the hypotheses included in the first broad research question, namely, the examination of corporate and hospital boards to determine if differences exist as to their pursuit of FA/IC issues. This chapter is divided into three sections. The first section examines the hospital questionnaire response pattern. This is followed by an analysis of results. The more salient points touched upon in the chapter are included in the last section--the summary. Chapter V examines hospital boards from the perspective of the board structure employed to address FA/IC issues.

Analysis in any study has its subjective aspects. The data gathered and presented in this study are so voluminous that the following two techniques were employed to reduce the data to manageable size and spare the reader burdens associated with information overload. First, the full frequency tables appear in Appendix B. Comparative summaries of the five most and least frequent and important FA/IC purposes and functions are presented in the body of this chapter because of the need to discuss the extremes associated with such important aspects of this study. Second, a 5 percent level serves not only as a point for arbitrarily determining significant differences between groups, but also for determining which items or characteristics would be discussed.

To further reduce the scope of phraseology associated with repeated references made to the Mautz and Neumann study (88), the acronym M&N and/or corporate data or corporate respondents is used.

A. RESPONSE PATTERN

This section presents an examination of Table 4.1, which illustrates the pattern of responses from the standpoint of hospital bed size and geographical location. Also, the span of time over which responses were received is discussed.

Of particular note is the fact that of the 526 questionnaires mailed, 262 (50 percent) were returned and usable. Given the substantial demands placed upon hospital CFO's to complete various survey instruments, the overall response rate is impressive.

Each cell in the six-by-nine matrix shown in Table 4.1 contains four numbers. The number in the upper left corner is the cell sample size. To its right is the number of responses. In the lower left corner is the percentage of responses to the cell sample size. To its right is the percentage of cell's responses to total responses. The column and row totals and percentages are similar to that of the individual cells.

An identification number was placed on each questionnaire to identify respondents for follow-up and response pattern purposes. Only slight difficulty was encountered in identifying respondents who returned their questionnaires without the identification number. Yet, this difficulty is illustrated in Table 4.1 by two cells (Row 4, Column 7 and Row 5, Column 1) showing more responses than original sample size.

TABLE 4.1

QUESTIONNAIRE SAMPLE SIZE AND RESPONSE PATTERN BY GEOGRAPHICAL REGION AND BED SIZE CATEGORIES

Bed Size Category	New England		Middle Atlantic		East N. Central		West N. Central		South Atlantic		East S. Central		West S. Central		Mountain		Pacific		Row Totals	
0-99	11[a]	4[b]	12	7	18	10	5	3	9	3	1	0	2	0	3	0	9	7	70	34
	36[c]	1.5[d]	58	2.7	55	3.8	60	1.1	33	.1	0	.0	0	.0	0	.0	77	2.7	49	13.0
100-199	13	8	20	6	26	11	10	6	17	6	4	0	7	4	8	5	21	9	126	55
	61	3.1	30	2.3	42	4.2	60	2.3	35	2.3	0	.0	57	1.5	63	1.9	43	3.4	44	21.0
200-299	13	9	25	8	29	14	6	2	16	3	5	2	5	1	6	4	10	6	115	49
	69	3.4	32	3.1	48	5.3	33	.8	19	1.1	40	0.8	20	0.4	66	1.5	60	2.3	43	18.7
300-399	13	3	16	8	14	6	6	3	13	10	2	3	3	3	5	3	8	7	80	46
	23	1.1	50	3.1	42	2.3	50	1.1	77	3.8	100	1.1	100	1.1	60	1.1	88	2.7	58	17.6
400-499	5	7	17	4	13	6	4	2	7	4	3	1	3	1	1	0	7	2	60	27
	100	2.7	24	1.5	46	2.3	50	.8	57	1.5	33	.4	33	.4	0	0	29	.8	45	10.3
≥500	6	3	20	10	19	13	8	7	8	6	3	1	6	6	1	1	4	4	75	51
	50	1.1	50	3.8	68	5.0	87	2.7	75	2.3	33	.4	100	2.3	100	.4	100	1.5	68	19.5
Column Totals:																				
No.	61	34	110	43	119	60	39	23	70	32	18	7	26	15	24	13	59	35	526	262
%	56	13.0	39	16.4	50	22.9	59	8.8	46	12.2	39	2.7	58	5.7	54	5.0	59	13.4		100

[a] Cell sample size.

[b] Number of responses per cell.

[c] Percentage that responses are of the cell sample size.

[d] Percentage that cell responses are of total responses.

In both cases, the cells were small in size, the margin of error was slight, and the percentage returned per cell was appropriately adjusted so as to not exceed the original cell sample size.

The column totals reveal a range for percentages of returns to sample size from 39 to 59 percent. The Middle Atlantic and East South Central regions both have a 39 percent return rate, the lowest regional response rates. The West North Central and Pacific regions both had the highest return rate, 59 percent. The difference in response patterns may be explained by the fact that some state hospital associations discourage their member institutions from responding to questionnaires not approved by the state association. New Jersey is a Middle Atlantic state whose hospital association has such a rule. The questionnaire employed in this research did not receive approval from any state hospital association. Bias exists in the response pattern to this survey instrument to the extent state hospital associations' approval is suggested before individual hospitals within such states respond to questionnaires.

The percentage range of questionnaire responses, when viewed from bed size classification, is approximately 20 percent, from a low of 49 percent in the 0-99 bed size category to 68 percent in the 500 and over bed size category. This range is similar to that encountered when respondents were classified by geographical region, although the low point of the range is 10 percent higher (49 compared to 39 percent). This small range between the high and low percentage of respondents, classified both by hospital bed size and geographical region, accompanied by

the overall response rate of 50 percent, appears to be reasonable and helps mitigate any serious non-response bias.

Ten of the 54 individual cells (18.5 percent) have response rates of less than 30 percent; 19 cells (35 percent) have response rates of less than 40 percent; 24 cells (44 percent) have response rates of less than 50 percent. An examination of the response rates of individual cells appears to illustrate a reasonable response rate among the cells.

The last feature of the response pattern to be discussed is the time frame over which responses were received. Over the 11-day period, December 1 through 11, 1980, 214, or 81.6 percent of the total responses, were returned. The remaining responses were reviewed individually and collectively for identifiable characteristics which might set them apart from the much larger group originally received. No such characteristics were found.

In summary, responses might be described as exhibiting an overall respectable rate and having a relatively small range of response when classified by bed size and geographical region. Also, most responses were received in a relatively short period of time. In light of these items, there appears no reason to conclude bias exists from non-respondents, except for selective states where hospital association approval of questionnaires is suggested.

B. FA/IC PURPOSES AND FUNCTIONS

Introduction

In discussing FA/IC purposes and functions, purposes are discussed first, and then functions. Each of these broad areas is

subdivided into a discussion of the five most and least frequently identified elements; then the five most and least important elements are discussed; this is followed by an examination of the statistical test results. Due to the number of ties appearing in the full table, especially with hospitals, in some cases more than five elements in the comparative summary tables were included. For example, if the first four items had no ties and two elements were tied for fifth place, six elements would be included in the table. In all cases, the designation of the original tied rank is retained. The attribute of effectiveness applies only to functions, and is covered last within that section.

For those interested in studying the appendix related to the frequency and importance of purposes and functions, the high and low ten of each is ranked. This results in dividing each table approximately into thirds, the high ten, the low ten, and an unmarked middle third. Since no adjustment is made for ties, the middle third purposes and functions could be substantially reduced in size. Also, the alpha-numeric notation employed in the questionnaire is retained in the tables to provide a ready reference for making comparisons to other tables in the chapter, as well as to the more comprehensive tables presented in the appendix.

To further structure the discussion of all comparative summaries the following guides are observed. The initial discussion centers on specific elements common to corporations and hospitals. This is followed by an examination of elements common to a category of related items, for example different numbered items falling within the same

broad (alphabetized) category. Remaining items are discussed within the context of the group, corporation or hospital, to which they relate.

Frequency of FA/IC Purposes

A comparative summary of the five most frequently identified purposes for pursuing FA/IC issues is provided in Table 4.2, while appendix Tables B.1 and B.2 contain the full data set for both groups. Common to corporations and hospitals and identified by 97 percent and 96 percent respectively is the purpose of giving evidence of due care in the performance of one's boardship responsibilities. This seems appropriate given the criticism boards, their committees, and members have received over the last decade (45, 58, 84). Board members, it appears, have heard and are responding to their critics.

While both hospital and corporate respondents cite as a purpose to provide regularly for a more direct and personal contact between trustees and an expert in FA/IC affairs, the expert is the independent auditor in the corporate setting and the financial officer in the hospital setting. The independent auditor as an external agent provides board members with an objective viewpoint and could assist in identifying problems and proposing alternative solutions. These latter attributes are gained from exposure to an industry as a result of experience gained with similar clients. Hospital respondents see board members directing their attention to the financial officer, an internal member of the organization. This purpose is identified by 98 percent of hospitals and ranks first. Although not reflected in the summary table, respondents from hospitals ranked ninth (95 percent) in terms of frequency of

TABLE 4.2

A COMPARATIVE SUMMARY OF THE FIVE MOST FREQUENTLY IDENTIFIED PURPOSES FOR PURSUING FA/IC ISSUES

Purposes for Pursuing FA/IC Issues Most Frequently Identified	Hospitals (n = 238)			Corporations* (n = 248)		
	n	%	Rank	n	%	Rank
A. To provide a direct and more personal contact on a regular basis between non-officer boardmembers and:						
1. The independent auditors.....				240	96.77	2
3. The financial officers of the entity...	233	97.90	1			
B. Utilize a committee to relieve the board, as a whole, of details regarding:						
3. The review of the results of the independent audit.....				233	93.95	4
E. To give additional attention to the audit function performed by:						
1. The independent auditors.....				242	97.58	1
F. To strengthen the objectivity and independence of:						
1. The independent auditors.....				233	93.95	4
G. To improve the knowledge and understanding of non-officer boardmembers regarding:						
5. The entity, its operations, and financial issues.....	230	96.64	4			
I. To give added attention to the information system and reporting practices.....	233	97.90	1			
J. To evaluate accounting and financial policies, procedures, and personnel.....	230	96.64	4			

TABLE 4.2 (Continued)

Purposes for Pursuing FA/IC Issues Most Frequently Identified	Hospitals (n = 238)			Corporations* (n = 248)		
	n	%	Rank	n	%	Rank
L. To give evidence of due care in the performance of one's boardmember responsibilities.....	231	97.06	3	238	95.97	3
M. To evidence a responsible attitude by management.....	232	97.48	2			

*Underlying data were generated by Mautz and Neumann.

the FA/IC purpose of regularly providing a direct and more personal contact between trustees and the independent auditor.

Hospitals, being such complex structures organizationally and financially (52, 76, 85), and educational programs for trustees being so popular (17), it seems appropriate that 96 percent of hospital boards have as a purpose for pursuing FA/IC issues "to improve the knowledge and understanding of trustees regarding the hospital, its operations, and financial issues." This purpose is one of the least identified FA/IC purposes by corporations. The purpose of giving added attention to the information system and reporting practices and that of evaluating accounting and financial policies, procedures, and personnel are oriented toward enhancing trustee involvement in learning about and monitoring the complex and cumbersome reporting system and its operating personnel. The complexity of the reporting system is evidenced not only by the requirements of generally accepted accounting principles, but also by the cost reporting system dictated for Medicare-Medicaid reimbursement and certificate of need policies which impact on justifying capital expenditures. Trustees also recognize the need to elicit from management the latter's awareness of their stewardship responsibilities to the board and, in turn, the community.

The greatest number of corporate respondents cite as the board's purposes for pursuing FA/IC issues, other than those discussed above, those dealing with some facet of an association with the independent auditors. These include utilizing a committee of the board to review the results of the independent audit, to give added attention to the

audit function performed by the independent auditors, and to strengthen the objectivity and independence of the independent auditors.

The reasons for presenting the five purposes identified least often in Table 4.3 is to emphasize the differences in the percentages between corporations and hospitals and to illustrate the consensus of hospitals as to the purposes identified least, namely, those associated with the internal auditor. Respondents for both corporations (76 percent) and hospitals (36 percent) state that boards are less concerned with the FA/IC purpose of utilizing a board committee as an advising group for internal auditors. Here, the similarity between the two groups ends. Hospital boards, as noted earlier, are less frequently concerned with the internal audit function with only 37 percent to 40 percent of respondents identifying purposes in this area. Corporations have as their least frequent purposes for pursuing FA/IC issues: to utilize a board committee to be an advising group for financial officers; to provide an added check on financial statements before their release to the public; to improve the knowledge and understanding of board members regarding the business, its operations, and financial issues; and to participate in specific audit and review activities.

Hospital FA/IC committees of the board, besides their low intentions of involvement with internal auditors, have identified all other purposes between 85 and 98 percent of the time. The frequency with which corporate FA/IC committees identified purposes, disregarding the low five, ranged from 82 percent through 98 percent. Both groups, it appears, identify most purposes on the questionnaire as reasons for their pursuit of FA/IC activities.

TABLE 4.3

A COMPARATIVE SUMMARY OF THE FIVE LEAST FREQUENTLY IDENTIFIED PURPOSES FOR PURSUING FA/IC ISSUES

Purposes for Pursuing FA/IC Issues Least Frequently Identified	Hospitals (n = 238)			Corporations* (n = 248)		
	n	%	Rank	n	%	Rank
A. To provide a direct and more personal contact on a regular basis between non-officer boardmembers and:						
2. The internal auditors.....	92	38.65	3			
B. Utilize a committee to relieve the board, as a whole, of details regarding:						
4. The review of the results of the internal audits.....	94	39.50	4			
C. Utilize a committee to provide an advisory group for:						
1. The financial officers of the entity...				193	77.82	2
2. The internal auditors.....	87	36.55	1	189	76.21	1
D. To provide an additional check on financial reports before their release to the public.				198	79.84	4
E. To give additional attention to the audit function performed by:						
2. The internal auditors.....	87	36.55	1			
F. To strengthen the objectivity and independence of:						
2. The internal auditors.....	88	36.97	2			

TABLE 4.3 (Continued)

Purposes for Pursuing FA/IC Issues Least Frequently Identified	Hospitals (n = 238)			Corporations* (n = 248)		
	n	%	Rank	n	%	Rank
G. To improve the knowledge and understanding of non-officer boardmembers regarding:						
5. The entity, its operations, and financial issues.....				201	81.05	5
K. To participate in specific audit and review activities.....				196	79.03	3

*Underlying data were generated by Mautz and Neumann.

Importance of FA/IC Purposes

A comparative summary of the five most important purposes for pursuing FA/IC issues is provided in Table 4.4. Two observations are mentioned at this point. Table 4.2, presenting the five most frequently identified purposes, is very similar to Table 4.4, on the five most important purposes. All exceptions are related to hospitals. Secondly, the range of scores on importance of purposes between groups does not overlap, with one exception. Generally, corporate respondents perceived their most frequently cited purposes as being more important than do hospital respondents.

Common to corporations and hospitals is the purpose of utilizing a committee to relieve the board, as a whole, of details regarding the review of the results of the independent audit. This is one of the exceptions cited in the previous paragraph; corporations rank it fourth in frequency of FA/IC purpose identified; hospitals rank it among the top third in frequency, but not among the top five. From a conceptual standpoint, the utilization of a committee as a board tool to devote more time to matters of importance--review of the results of the independent audit--is being applied in practice.

Both hospital and corporate respondents indicated the importance of providing direct and personal contact between board members and an FA/IC expert regularly. As with frequency of purpose, the independent auditor was identified in the corporate arena, while the CFO was the choice among hospital respondents. Surprisingly, each group placed the expert selected by the other group in or near the lower third of FA/IC purposes ranked in terms of importance. That is to say, hospital

TABLE 4.4

A COMPARATIVE SUMMARY OF THE FIVE MOST IMPORTANT PURPOSES FOR PURSUING FA/IC ISSUES

Most Important Purposes for Pursuing FA/IC Issues	Hospitals		Corporations*	
	Median Score	Rank	Median Score	Rank
A. To provide a direct and more personal contact on a regular basis between non-officer boardmembers and:				
1. The independent auditors.....			4.892	1
3. The financial officers of the entity...	4.556	2		
B. Utilize a committee to relieve the board, as a whole, of details regarding:				
3. The review of the results of the independent audit.....	4.288	4	4.621	3
C. Utilize a committee to provide an advisory group for:				
3. The full board.....	4.712	1		
E. To give additional attention to the audit function performed by:				
1. The independent auditors.....			4.639	2
F. To strengthen the objectivity and independence of:				
1. The independent auditor.....			4.614	4
G. To improve the knowledge and understanding of non-officer boardmembers regarding:				
5. The hospital, its operations, and financial issues.....	4.540	3		

TABLE 4.4 (Continued)

Most Important Purposes for Pursuing FA/IC Issues	Hospitals Median Score	Hospitals Rank	Corporations* Median Score	Corporations* Rank
L. To give evidence of due care in the performance of one's boardmember responsibilities.....			4.595	5
M. To evidence a responsible attitude by management.....	4.181	5		

*Underlying data were generated by Mautz and Neumann.

respondents saw it as a less important FA/IC purpose for the committee to have contact with the independent auditor; corporate respondents saw it as less important for the committee to have contact with the financial officers of the hospital. This implies that, in order for hospital financial officers to retain power, it is more important for them to have access to the committee rather than the independent auditor. It also appears to undermine the basic intent of overviewing the audit process by minimizing the importance of access by the committee with the independent auditor.

Hospital respondents perceive as the most important FA/IC purpose the board utilization of a committee as an advisory group. This has important overtones since the committee concept has, as its most important feature, the ability to influence the amount of time devoted to the purpose(s) for which it was created and, thereby, inform its members of substantive issues (30, 102). Related to this purpose is the purpose of utilizing a committee to review the results of the independent audit. As to with whom the results of the independent audit would be reviewed, it appears from the previous paragraph that the hospital financial officer would be the choice. The other purposes of importance reflected in Table 4.4, which were among the most frequently identified in Table 4.2, page 73, were the FA/IC purposes of improving the knowledge and understanding of board members regarding the hospital, its operations, and financial issues, as well as eliciting evidence of a responsible attitude by management.

The most important purposes of corporate FA/IC committees are identical to those purposes identified most frequently. The ordering

within the two sets is different, most notably, the first two purposes measured via their frequency, are reversed when measured in terms of importance. Regular and frequent contact with the independent auditor ranks first, while giving attention to the audit function performed by the independent auditor ranks second.

Table 4.5 provides a comparative summary of the five least important purposes for pursuing FA/IC issues. Three observations are made. Most purposes are similar with respect to being least frequent and least important. Secondly, the range of scores on importance of purpose for each of the two groups do not overlap. The two distributions are separated by a score of .992, or almost one whole ranking position. Stated simply, hospital respondents perceive their least frequently identified purposes to be less important than do corporate respondents. Finally, hospital respondents view as least important those purposes related to the internal audit function.

The application of the Mann-Whitney U Test to corporate and hospital rankings of the importance of purpose for pursuing FA/IC issues reveals an agreement on most rankings. Table 4.6 contains the test results. Of the 28 purposes listed, only six fall beyond the .05 significance level. Statistically, these purposes do not appear to be from different populations. Two points should be noted about the tables. First, the tables are generated using the scale five through zero. Only those items considered to be purposes of the respondents were to be checked on the scale of five--high through one--low. Zeros were assigned items not considered purposes of that committee by

TABLE 4.5

A COMPARATIVE SUMMARY OF THE FIVE LEAST IMPORTANT PURPOSES FOR PURSUING FA/IC ISSUES

Least Important Purposes for Pursuing FA/IC Issues	Hospitals		Corporations*	
	Median Score	Rank	Median Score	Rank
A. To provide a direct and more personal contact on a regular basis between non-officer boardmember and:				
2. The internal auditors.....	.315	3		
B. Utilize a committee to relieve the board, as a whole, of details regarding:				
1. The nomination of the independent auditors.....			2.192	4
4. The review of the results of the internal audits.....	.326	4		
C. Utilize a committee to provide an advisory group for:				
1. The financial officers of the entity...			1.879	2
2. The internal auditors.....	.288	1	2.000	3
D. To provide an additional check on financial reports before their release to the public.			2.233	5
E. To give additional attention to the audit function performed by:				
2. The internal auditors.....	.288	1		
F. To strengthen the objectivity and independence of:				
2. The internal auditors.....	.293	2		

TABLE 4.5 (Continued)

Least Important Purposes for Pursuing FA/IC Issues	Hospitals		Corporations*	
	Median Score	Rank	Median Score	Rank
K. To participate in specific audit and review activities.....			1.318	1

*Underlying data were generated by Mautz and Neumann.

TABLE 4.6

MANN-WHITNEY U TEST APPLIED TO THE IMPORTANCE OF POSSIBLE PURPOSES FOR PURSUING FA/IC ISSUES

Possible Purposes for Addressing FA/IC Issues	Mean Ranks: Hospitals (n = 238)	Mean Ranks: Corporations* (n = 248)	Mann-Whitney U Test Statistic	Two-Tailed Probability
A. To provide a direct and more personal contact on a regular basis between non-officer boardmembers and:				
1. The independent auditors.....	159.25	324.35	9460	.000
2. The internal auditors.....	164.68	319.14	10752.5	.000
3. The financial officers of the entity...	295.42	193.67	17154	.000
B. Utilize a committee to relieve the board, as a whole, of details regarding:				
1. The nomination of the independent auditors.....	255.54	231.94	26645.5	.060
2. The arrangements for the independent audit.....	231.80	254.73	26726.5	.067
3. The review of the results of the independent audit.....	231.70	254.82	26704.5	.050
4. The review of the results of the internal audit.....	183.12	301.44	15142	.000
C. Utilize a committee to provide an advisory group for:				
1. The financial officers of the entity...	309.00	180.64	13923	.000
2. The internal auditors.....	188.61	296.17	16449	.000
3. The board of trustees.....	270.69	217.41	23041	.000
D. To provide an additional check on financial reports before their release to the public	234.83	251.82	27447.5	.175
E. To give additional attention to the audit function performed by:				
1. The independent auditors.....	186.06	298.63	15841	.000
2. The internal auditors.....	164.30	319.51	10661.5	.000

TABLE 4.6 (Continued)

Possible Purposes for Addressing FA/IC Issues	Mean Ranks: Hospitals (n = 238)	Mean Ranks: Corporations* (n = 248)	Mann-Whitney U Test Statistic	Two-Tailed Probability
F. To strengthen the objectivity and independence of:				
1. The independent auditors.....	190.58	294.28	16917.5	.000
2. The internal auditors.....	170.96	313.12	12246.5	.000
G. To improve the knowledge and understanding of non-officer boardmembers regarding:				
1. The nature, scope, and limits of the audit function.....	203.57	281.81	20008	.000
2. The existence and role of accounting and internal financial and operational controls.....	227.43	258.92	25687.5	.011
3. The generally accepted accounting and reporting practices and responsibilities.....	229.43	257.00	26163	.027
4. The financial statements and alternative sources of information.....	290.68	198.22	18283.5	.000
5. The entity, its operations, and financial issues.....	326.26	164.08	9816	.000
H. To improve effectiveness of internal financial and operational control systems.....	242.21	244.74	29204	.838
I. To give added attention to the information system and reporting practices.....	263.28	224.52	24804	.002
J. To evaluate accounting and financial policies, procedures, and personnel.....	239.95	246.91	28667	.576
K. To participate in specific audit and review activities.....	258.30	229.29	25989	.019
L. To give evidence of due care in the performance of one's boardship responsibilities	221.34	264.77	24237.5	.000

TABLE 4.6 (Continued)

Possible Purposes for Addressing FA/IC Issues	Mean Ranks: Hospitals (n = 238)	Mean Ranks: Corporations* (n = 248)	Mann-Whitney U Test Statistic	Two-Tailed Probability
M. To evidence a responsible attitude by management.....	256.30	231.21	26465	.040
N. To ensure full cooperation and unrestricted access to accounts, records, and personnel during the performance of an audit	206.06	279.43	20600.5	.000
O. To appraise policies and procedures to prevent illegal and unethical acts.....	237.11	249.63	27991.5	.315

*Underlying data were generated by Mautz and Neumann.

respondents. Second, the test statistic and probability are given for all purposes, so the reader can conveniently examine all purposes.

The importance of FA/IC purposes are not different between groups with respect to utilizing a committee to relieve the board, as a whole, of details regarding nomination of the independent auditor and regarding arrangements for the independent audit. These two purposes are rated in the lower third for both groups in terms of median ranks of importance for all purposes listed. Respondents appear to be in agreement as to the lack of importance of these two purposes which are oriented toward involving the FA/IC committee in the planning and development phases of the audit. Yet, writers discussing what the principal concerns of a committee of this type should be place these two purposes rather high in terms of importance (39, 134).

With median scores of importance between 3.4 and 3.6, both groups agree on the importance of evaluating accounting and financial policies, procedures, and personnel. They also agree on the appraisal of policies and procedures to prevent illegal and unethical acts within the entity. Hospitals and corporate respondents view these FA/IC purposes as a bit higher than the middle of all purposes listed in terms of overall importance. This seems reasonable given both public attention and lawsuits which have adversely affected board members in both groups (58, 125, 140).

No difference was found between the two groups on the FA/IC purpose to provide an additional check on financial reports before their release to the public; respondents from hospitals and corporations view this as a relatively unimportant purpose. The phrase "additional check" could very well have been perceived by respondents as implying a level

of expertise for board members beyond that required of them to execute their duties with due care.

No between group difference was found for the purpose of improving the effectiveness of internal financial and operational control systems. These ratings fall in the middle third of the ratings of importance of all purposes listed for both groups. From the examination of the two-tailed probability, a between group consensus appears to exist. That the internal auditor would assist in improving the effectiveness of the internal financial and operating control system cannot be denied; yet, hospital respondents rate the importance of all FA/IC purposes tied to the internal auditor as least important. Corporate respondents, on the other hand, are more selective in their rating of FA/IC purposes associated with the internal auditor; on the average, they rate the purposes in question to be of moderate importance. In short, corporate respondents agree on the purpose of improving the effectiveness of internal control systems and the purposes related to the internal auditor, the party whose activities have a direct bearing on improving the effectiveness of the internal control system. Hospital respondents lack this consensus.

Frequency of FA/IC Functions

As stated earlier, three aspects of functions are discussed: the frequency with which functions are pursued, their perceived importance, and how effectively those functions addressed are pursued. Table 4.7, containing the five most frequently pursued functions, is examined first. Appendix Tables B.3 and B.4 contain the full data set for both groups.

TABLE 4.7

A COMPARATIVE SUMMARY OF THE FIVE MOST FREQUENTLY IDENTIFIED FA/IC FUNCTIONS UNDERTAKEN

FA/IC Functions Undertaken Most Frequently	Hospitals (n = 238)			Corporations* (n = 248)		
	n	%	Rank	n	%	Rank
A. Related to work of independent auditors						
1. Discuss scope and timing of audit work				214	86.29	3
2. Discuss problems and experience in completing audit				219	88.31	1
3. Discuss meaning and significance of audited figures and notes thereto	232	97.48	1	210	84.68	4
B. Related to work of internal auditors						
1. Discuss organization and independence				199	80.24	5
C. Related to entity's system and controls						
1. Discuss effectiveness of internal control	213	89.50	4	215	86.69	2
D. Related to entity's personnel						
1. Discuss adequacy of accounting and financial staff	217	91.18	3			
F. Related to other matters						
2. Review entity's insurance program	213	89.50	4			
7. Review budgets and comparisons of budgets to actual results	229	96.22	2			

*Underlying data were generated by Mautz and Neumann.

Of the five most frequently pursued functions by FA/IC committees of the board, both corporate and hospital respondents agree upon the discussion of the meaning and significance of the financial statements audited by the independent CPA. Recall that both groups identified the review of the results of the independent audit as one of the five most important FA/IC purposes, and both place this among their top ten purposes most frequently identified. Clearly, in this case, respondents in both groups are practicing what they previously identified as an important purpose.

Related to the entity's system and controls, respondents from both groups cite discussion of the effectiveness of internal controls as one of the most frequently addressed FA/IC functions. That both groups would also pursue this particular function emphasizes the broad-based agreement on two fundamental "financial accounting" and "internal control" functions.

Between 84 and 88 percent of hospital and corporate FA/IC committees pursue functions of discussing the scope and timing of audit work and problems and experiences in completing the audit with the independent auditor. These are among the five most frequently pursued functions of corporations, but not hospitals. To hospital FA/IC committees, the first is in the middle third of functions pursued while the latter is in the top third most frequently pursued functions. The groups are not far apart concerning these functions which relate to planning and execution activities of the audit when compared on the relative percentage of entities within each group pursuing these functions.

However, hospital FA/IC committees have significantly less involvement in pre-audit planning as opposed to post-audit review activities.

Considerable differences exist in the frequency with which the following FA/IC committee functions are pursued. Discussing the organization and independence of the internal auditor is one of the most frequently pursued functions of corporate FA/IC committees and one of the least pursued by hospital FA/IC committees. This is discussed at length with the least pursued functions. Conversely, hospital committees most frequently review budgets and make comparisons of them to actual results; while corporate committees do this least frequently. This function, along with a few others, indicates the multiple thrusts of hospital FA/IC committees that is lacking from corporate FA/IC committees. That is not to say corporations are unconcerned with matters of finance, but rather these concerns are probably dealt with by a different committee.

Similarly, 90 percent of the hospital committees review the entity's insurance program compared to 42 percent of the corporate committees. This emphasizes the multiplicity of major functions undertaken and also points out the importance of insurance programs to hospitals (54). Corporate committees discuss adequacy of accounting and financial staff less frequently than do hospitals. More hospital committees discuss the number and quality of personnel in the accounting and finance areas. This is not surprising given the paucity of internal audit personnel.

Two general observations are made about Table 4.7. The range of the frequency percentages of each group does not overlap. Hospitals appear to more frequently pursue FA/IC functions than do corporations.

Corporations, on the other hand, concentrate the frequency with which they pursue functions in areas related to the work of the independent auditor (financial accounting) and the system of internal control of which the internal auditor is part. Hospital FA/IC functions are dispersed across a wider range and are indicative of the industry's environment, its concern with risk management (insurance), and cost containment via budget reviews (53, 54, 71).

A few generalizations can be made about the five least frequently pursued FA/IC functions presented in Table 4.8. First, hospital FA/IC committees least frequently address all functions associated with internal auditors. This is not to imply that all reference to internal control is abandoned by the hospital FA/IC committee. The second standard of field work requires that an independent auditor CPA study and evaluate internal controls as part of his audit process (12). Also, the independent CPA is required to communicate material internal accounting control weaknesses to the client as part of the audit engagement process (8). Whether internal controls are reviewed by the independent auditor is determined by the extent to which controls or the lack thereof impact upon the reliable preparation of the financial statements. Some accounting and many administrative controls are disregarded by the independent auditor. These latter controls include those which promote operating efficiency. The role of the internal auditor should not be minimized. The internal auditor can undertake activities not pursued by the independent auditor and can even be used, under the direction of the independent auditor, to reduce the latter's work load and fee (13).

TABLE 4.8

A COMPARATIVE SUMMARY OF THE FIVE LEAST FREQUENTLY IDENTIFIED FA/IC FUNCTIONS UNDERTAKEN

FA/IC Functions Undertaken Least Frequently	Hospitals (n = 238)			Corporations* (n = 248)		
	n	%	Rank	n	%	Rank
B. Related to work of internal auditors						
1. Discuss organization and independence	93	39.08	3			
2. Discuss goals and plans, including nature and extent of work	92	38.66	2			
3. Discuss problems and experience in completing audits	90	37.82	1			
4. Discuss findings and recommendations	94	39.50	4			
D. Related to entity's personnel						
2. Discuss adequacy of internal audit staff	100	42.02	5			
E. Related to entity's external reporting						
4. Review efforts to disclose social costs and obligations				71	28.63	4
F. Related to other matters						
5. Review and approve selected officers' expenses				77	31.05	5
6. Approve signatures for bank accounts and borrowing				62	25.00	1
7. Review budgets and comparisons of budgets to actual results				64	25.81	2

TABLE 4.8 (Continued)

FA/IC Functions Undertaken Least Frequently	Hospitals (n = 238)			Corporations* (n = 248)		
	n	%	Rank	n	%	Rank
8. Discuss entity's efforts to comply with legal and social obligations to employees, community, and others				68	27.42	3

*Underlying data were generated by Mautz and Neumann.

Taken as a whole, the five least frequently addressed FA/IC functions imply that corporate, rather than hospital, FA/IC committees are less willing to engage in activities beyond the basic thrust of dealing with the external and internal audit functions, their people, and products. Also less frequently pursued are functions concerned with very specific activities of a detailed nature. This latter comment is reinforced by the fact that both groups place among the least important FA/IC purposes participation in specific audit and review activities.

Importance of FA/IC Functions

Table 4.9 contains the five most important FA/IC functions undertaken. In addition to being one of the five most frequently addressed functions for each group, both groups ranked discussing the meaning and significance of audited statements as one of the five most important functions. This function is one of the cornerstones underlying the reasons for forming a committee of the board to pursue FA/IC issues (9, 33, 52, 59). The frequency with which hospital and corporation committees address this function, cited above, attests to that fact.

Corporate and hospital respondents view the approval or nomination of the independent auditor as one of the five most important functions undertaken. Surprisingly, both groups did not respond with the same enthusiasm to a similar purpose of utilizing the FA/IC committee to nominate the independent auditor. No explanation can be given for this difference between purpose and function other than that the FA/IC purpose statement included the word nominate, which denotes action, while the FA/IC function statement included the phrase approve or nominate, the former term implying a more passive form of approval. The function

TABLE 4.9

A COMPARATIVE SUMMARY OF THE FIVE MOST IMPORTANT
FA/IC FUNCTIONS UNDERTAKEN

Most Important FA/IC Functions Assigned	Hospitals		Corporations*	
	Median Score	Rank	Median Score	Rank
A. Related to work of independent auditors				
1. Discuss scope and timing of audit work			4.524	1
2. Discuss problems and experience in completing audit			4.508	2
3. Discuss meaning and significance of audited figures and notes thereto	4.230	2	4.417	3
C. Related to entity's system and controls				
1. Discuss effectiveness of internal control			4.292	4
F. Related to other matters				
3. Approve or nominate independent auditors	3.625	4	4.508	2
6. Approve signatures for bank accounts and borrowing	3.700	3		
7. Review budgets and comparisons of budgets to actual results	4.701	1		
8. Discuss entity's efforts to comply with legal and social obligations to employees, community, and others	3.479	5		

*Underlying data were generated by Mautz and Neumann.

of approval/disapproval of the independent auditor is assumed to be one of the most important functions.

Between group comparison of the remaining five most important functions is characterized by a substantial lack of agreement except for one function. Both groups place the function of discussing the effectiveness of internal control in the top third of the functions when measured in terms of importance; corporations place it among the top five. This function is one of five most frequently pursued by both groups. As stated earlier, discussing the effectiveness of internal controls can, as many feel should, involve both the independent CPA and internal auditor (59). A void exists when only the independent CPA is included in such activities. Yet, hospital respondents choose to place little importance upon FA/IC committee interaction with internal auditors (Table 4.10).

Whereas corporate respondents view as most important all functions related to the work of the independent auditor, their counterparts agree only on one, namely, discussion of the audited financial statements. Hospital respondents view discussing the scope and timing of audit work, along with discussing problems and experiences in completing the audit, as being in the lower and middle third of importance of functions respectively. Neither of these functions, when expressed in terms of the FA/IC purpose of utilizing a committee to see to details of arrangements for the independent audit, were considered very important to either group. No evidence is available to explain the contradiction between the importance of purpose and the apparently related function to corporations. Returning to the importance of functions, corporate respondents

TABLE 4.10

A COMPARATIVE SUMMARY OF THE FIVE LEAST IMPORTANT FA/IC FUNCTIONS UNDERTAKEN

Least Important FA/IC Functions Assigned	Hospitals		Corporations*	
	Median Score	Rank	Median Score	Rank
B. Related to work of internal auditors				
1. Discuss organization and independence	.321	3		
2. Discuss goals and plans, including nature and extent of work	.315	2		
3. Discuss problems and experience in completing audits	.304	1		
4. Discuss findings and recommendations	.326	4		
D. Related to entity's personnel				
2. Discuss adequacy of internal audit staff	.362	5		
E. Related to entity's external reporting				
4. Review efforts to disclose social costs and obligations			.201	4
F. Related to other matters				
5. Review and approve selected officers' expenses			.225	5
6. Approve signatures for bank accounts and borrowing			.167	1
7. Review budgets and comparisons of budgets to actual results			.174	2

TABLE 4.10 (Continued)

Least Important FA/IC Functions Assigned	Hospitals		Corporations*	
	Median Score	Rank	Median Score	Rank
8. Discuss entity's efforts to comply with legal and social obligations to employees, community, and others			.189	3

*Underlying data were generated by Mautz and Neumann.

seem to place more importance on the active participation of the FA/IC committee in the planning phase of the audit through the discussion of problems in implementing and carrying out the audit. However, hospital respondents view their FA/IC committees as assuming more of a passive role in these areas and becoming actively involved only in the discussion of the audited financial statements.

A wide difference between groups exists concerning the importance of functions related to approval of signatures for bank accounts and borrowing, review of budgets and their comparison to actual, and the discussion of efforts to comply with legal and social issues to, among others, employees and the community. Table 4.9, page 98, indicates hospitals consider all of these to be very important functions; corporations' respondents view these among the least important of functions. As noted earlier in the discussion, hospital FA/IC committees perform a multitude of varied functions, among them to review the budgets and later compare them to actual. Also, the preoccupation of hospitals with cost control would account for the high priority given this item (85). Hospitals' priority with legal and social obligations might be explained in terms of the entity's emphasis upon less tangible goods, such as with the physical welfare of its constituents. Emphasis upon legal obligations can be tied to the hospital's concern for quality care and the negative consequences resulting from the lack of such care (140). Approval of signatures for bank accounts and borrowing is an important function to hospitals because of the restriction placed upon voluntary hospitals in raising funds, as well as their preoccupation with monitoring costs and expenditures (45).

The following broad conclusions are drawn from the data in Table 4.10, which contains the five least important FA/IC functions. First, no overlap exists between groups as to those functions considered least important. Second, hospital respondents feel that all FA/IC functions related to the internal auditor are least important when considered in the context of all the functions listed. Finally, corporate respondents appear less concerned with functions which are either detailed audit and review activities or those which are associated with social costs and obligations.

Only five FA/IC functions were determined not to be different when hospital and corporate rankings of their importance were compared via the Mann-Whitney U Test. Table 4.11 contains the test results. The points made earlier about the application of the Mann-Whitney U Test to importance of FA/IC purposes apply equally here.

Two functions, discussion of the meaning and significance of audited financial statements and the approval or nomination of the independent auditor, are ranked by respondents as being among the five most important functions pursued by both groups. Boards have been cautioned on the importance of their examination of the financial position and operation (9, 33). Yet, the results here show not only a lack of difference between the groups, but a common belief that this function is indeed important. Approval or nomination of the independent auditor by FA/IC committee has been discussed in the literature as being important because it assists in maintaining the independence of the external auditor (9, 39). These functions pervade the literature as two of the

TABLE 4.11

MANN-WHITNEY U TEST APPLIED TO THE IMPORTANCE OF FA/IC FUNCTIONS UNDERTAKEN

Possible FA/IC Functions Assigned	Mean Ranks: Hospitals (n = 238)	Mean Ranks: Corporations* (n = 248)	Mann-Whitney U Test Statistic	Two-Tailed Probability
A. Related to work of independent auditors				
1. Discuss scope and timing of audit work	186.18	298.51	15870.5	.000
2. Discuss problems and experience in completing audit	188.57	296.22	16438.5	.000
3. Discuss meaning and significance of audit figures and notes thereto	246.27	240.84	28852.5	.652
B. Related to work of internal auditors				
1. Discuss organization and independence	174.80	309.43	13161.5	.000
2. Discuss goals and plans, including nature and extent of work	181.93	302.59	14858.5	.000
3. Discuss problems and experience in completing audits	187.90	296.86	16279	.000
4. Discuss findings and recommendations	192.71	292.24	17424.5	.000
C. Related to entity's system and controls				
1. Discuss effectiveness of internal control	209.96	275.69	21530	.000
2. Discuss effectiveness of use and control of electronic data	239.52	247.32	28564.5	.533
3. Discuss effectiveness of procedures to prevent kickbacks and conflicts of interest	227.27	259.07	25650	.011
D. Related to entity's personnel				
1. Discuss adequacy of accounting and financial staff	260.63	227.06	25436	.007
2. Discuss adequacy of internal audit staff	183.35	301.23	15195.5	.000

TABLE 4.11 (Continued)

Possible FA/IC Functions Assigned	Mean Ranks: Hospitals (n = 238)	Mean Ranks: Corporations* (n = 248)	Mann-Whitney U Test Statistic	Two-Tailed Probability
E. Related to entity's external reporting				
1. Review reports before submission to regulatory bodies (SEC, HCFA or their representative including fiscal intermediary	278.00	210.39	21300.5	.000
2. Review financial reports before issuance	320.99	169.14	11070	.000
3. Review accounting principles and practices	212.21	273.53	22065	.000
4. Review efforts to disclose social costs and obligations	313.81	176.02	12777.5	.000
5. Review status of tax returns	254.00	233.42	27012.5	.084
F. Related to other matters				
1. Discuss fraud situations or fidelity bond losses	242.87	244.10	29363	.922
2. Review entity's insurance program	315.50	174.41	12377	.000
3. Approve or nominate independent auditors	235.40	251.27	27585	.193
4. Recommend or approve compensation for independent auditors	266.77	221.17	23974	.000
5. Review and approve selected officers' expenses	290.99	197.93	18210	.000
6. Approve signatures for bank accounts and borrowing	340.19	150.71	6499.5	.000
7. Review budgets and comparisons of budgets to actual results	353.41	138.02	3354	.000
8. Discuss entity's efforts to comply with legal and social obligations to employees, community, and others	328.52	161.91	9278	.000

*Underlying data were generated by Mautz and Neumann.

fundamental functions of a board committee which has as its goal the pursuit of FA/IC issues (9, 39, 59).

Related to the overall system and controls is the discussion of the effectiveness of use and control of electronic data. Both groups place this function on the border of the top to middle third in terms of median score of importance. A between group difference was not detected. The growing importance of electronic equipment to information processing, as well as the control features embodied in the hardware and components of such systems, cannot be understated (128).

No between group difference for importance exists for discussing fraud situations or fidelity bond losses. The median scores fall around the middle of all importance of function scores. A priori this function would be considered more important given the expanded attention given fraud and abuse in both sectors (43, 58).

An aspect of external reporting on which both groups place little importance is that of reviewing the status of tax returns; no between group difference was detected. The importance of this particular function has not been emphasized in the literature. Although the complexities of the tax law escape many people, the function in question only relates to the "status" of the return, timely filed, audited, nature and amounts of any adjustments and not to the review of the return itself.

Effectiveness of FA/IC Functions

Consistent with the ranking of the most important of FA/IC functions, the data in Table 4.12 illustrate that hospital and corporate respondents view among the most effectively pursued FA/IC functions the discussion of the meaning and significance of audited financial

TABLE 4.12

A COMPARATIVE SUMMARY OF THE FIVE MOST EFFECTIVELY PURSUED FA/IC FUNCTIONS

Most Effectively Pursued FA/IC Functions	Hospitals		Corporations*	
	Median Score	Rank	Median Score	Rank
A. Related to work of independent auditors				
1. Discuss scope and timing of audit work			4.591	2
2. Discuss problems and experience in completing audit			4.547	4
3. Discuss meaning and significance of audited figures and notes thereto	4.015	4	4.575	3
C. Related to entity's system and controls				
1. Discuss effectiveness of internal control			4.241	5
F. Related to other matters				
3. Approve or nominate independent auditors	4.050	3	4.739	1
6. Approve signatures for bank accounts and borrowing	4.426	2		
7. Review budgets and comparisons of budgets to actual results	4.656	1		
8. Discuss entity's efforts to comply with legal and social obligations to employees, community, and others	3.633	5		

*Underlying data were generated by Mautz and Neumann.

statements and the approval or nomination of the independent auditor. More generally stated, respondents from both groups felt that those functions which they thought were most important to the FA/IC committee were those same functions which they felt the committee pursued most effectively. Appendix Tables B.5 and B.6 contain the full data set for both groups.

Corporate respondents perceive their FA/IC committees to effectively pursue all functions associated with the external auditor; the same functions thought by respondents to be among the most important. Also effectively pursued and of importance were discussions on the effectiveness of internal controls. Hospital respondents feel the functions of audit planning and discussion of problems associated with the external auditor are less important and are done less effectively. Discussions on internal controls, although not ranked among the five most important or effectively pursued, were ranked in the top third on both scales.

Hospital respondents rated as most effectively pursued those functions which they had rated among the most important. These include approval of signatures for bank accounts and borrowing, review of budgets and their comparison to actual results, and the discussion of legal and social obligations. Corporate respondents rate these functions, both in terms of importance and effectiveness, among the bottom third.

Clearly, a positive relationship exists between the importance of a function and the extent to which it is effectively pursued. A reason for this could be that functions perceived to be more important are allocated more time and energy by committee members, resulting in more

knowledgeable dialogue on the pertinent issues which result in a high "effective" rating. Tied to a shortcoming of the methodology, respondents from both groups may have wanted to avoid having their FA/IC committee, and indirectly themselves, look bad. Hence, those functions judged to be important should be rated as being done effectively.

Functions least effectively pursued by both groups (Table 4.13) included reviewing efforts to disclose social costs and obligations and the review and approval of selected officers' expenses. Both groups placed these functions in the lower third of all functions listed in terms of importance. The measurement and disclosure of social costs is a difficult subject and one to which many individuals give low priority because of more pressing matters (118). Given these facts, it is understandable why both groups would place low priority on the disclosure of social costs and at the same time not be capable of doing an effective job. Reviewing and approving selected officers' expenses appears to fall within the realm of a specific audit activity and therefore is also unimportant for that reason. Respondents' perceptions that the FA/IC committee pursues this function less than effectively may be affected by their inability to maintain an independent attitude.

Although hospital respondents perceive reviewing the status of the tax returns and the reviewing of reports by the FA/IC committee before their submission to regulatory bodies among the five least effectively pursued functions, corporate respondents rate the effectiveness with which these functions are pursued among the lower third of all functions listed in terms of the effectiveness with which undertaken. Consistent with the previously established relationship between

TABLE 4.13

A COMPARATIVE SUMMARY OF THE FIVE LEAST EFFECTIVELY PURSUED FA/IC FUNCTIONS

Least Effectively Pursued FA/IC Functions	Hospitals		Corporations*	
	Median Score	Rank	Median Score	Rank
E. Related to entity's external reporting				
1. Review reports before submission to regulatory bodies (HCFA or their representative including fiscal intermediary).....	1.489	3		
4. Review efforts to disclose social costs and obligations.....	2.297	4	1.470	2
5. Review status of tax returns.....	1.308	1		
F. Related to other matters				
1. Discuss fraud situations or fidelity bond losses.....	2.513	5		
5. Review and approve selected officers' expenses.....	1.482	2	2.000	3
6. Approve signatures for bank accounts and borrowing.....			1.364	1
7. Review budgets and comparisons of budgets to actual results.....			2.167	4
8. Discuss entity's efforts to comply with legal and social obligations to employees, community, and others			2.594	5

*Underlying data were generated by Mautz and Neumann.

importance and effectiveness, both groups view the former function as unimportant, ranking among the lower third; the latter function is viewed by both groups as moderately important, ranking among the middle third.

Between group comparability is lacking for the following FA/IC functions: approving signatures for bank accounts and borrowing, reviewing budgets, and discussing legal and social obligations; hospital respondents rate these functions as not only important but effectively pursued by their FA/IC committees. Corporate respondents view these functions as unimportant to their committee and ineffectively pursued. This seems unreasonable concerning the function of reviewing budgets. It is understandable that this function may not be important because reviewing budgets falls within the purview of another committee, but it seems unreasonable that FA/IC committee members would be ineffective in their pursuit of this function.

The application of the Mann-Whitney U Test to the effectiveness ratings of functions by corporate and hospital respondents revealed that all but four FA/IC functions have different between group ratings. Table 4.14 contains test results for all functions. An important change in the generation of the test statistic should be noted at this point. Effectiveness ratings of respondents were included if two criteria were met: only where respondents rated the importance of a function other than zero and thereby acknowledged their FA/IC committee undertook the function, and where respondents rated the effectiveness other than zero since a non-response could not be assumed to indicate ineffective pursuit of a function. Table 4.14 includes a column for the number of respondents.

TABLE 4.14

MANN-WHITNEY U TEST APPLIED TO THE EFFECTIVENESS OF FA/IC FUNCTIONS UNDERTAKEN

Possible FA/IC Functions Assigned	Hospitals n	Hospitals Mean Ranks	Corporations* n	Corporations* Mean Ranks	Mann-Whitney U Test Statistic	Two-Tailed Probability
A. Related to work of independent auditors						
1. Discuss scope and timing of audit work	197	145.16	200	252.03	9094	.000
2. Discuss problems and experience in completing audit	207	157.20	202	253.98	11013	.000
3. Discuss meaning and significance of audited figures and notes thereto	229	192.48	196	236.97	17743	.000
B. Related to work of internal auditors						
1. Discuss organization and independence	90	96.98	188	159.86	4633	.000
2. Discuss goals and plans, including nature and extent of work	90	104.86	179	150.16	5342	.000
3. Discuss problems and experience in completing audits	87	93.42	166	144.60	4299	.000
4. Discuss findings and recommendations	93	116.46	179	146.91	6459	.002
C. Related to entity's system and controls						
1. Discuss effectiveness of internal control	211	171.24	200	242.67	13766	.000
2. Discuss effectiveness of use and control of electronic data	210	186.62	182	207.90	17034	.056
3. Discuss effectiveness of procedures to prevent kickbacks and conflicts of interest	205	163.41	179	225.81	12384	.000
D. Related to entity's personnel						
1. Discuss adequacy of accounting and financial staff	213	188.30	174	200.97	17317	.253
2. Discuss adequacy of internal audit staff	97	109.11	182	156.46	5831	.000

TABLE 4.14 (Continued)

Possible FA/IC Functions Assigned	Hospitals n	Hospitals Mean Ranks	Corporations* n	Corporations* Mean Ranks	Mann-Whitney U Test Statistic	Two-Tailed Probability
E. Related to entity's external reporting						
1. Review reports before submission to regulatory bodies (sec, HCFA or their representative including fiscal intermediary)	179	123.62	91	158.87	6018	.000
2. Review financial reports before issuance	203	149.33	76	115.08	5820	.001
3. Review accounting principles and practices	198	149.21	179	233.01	9843	.000
4. Review efforts to disclose social costs and obligations	186	130.02	64	112.36	5111	.080
5. Review status of tax returns	146	103.71	99	151.44	4411	.000
F. Related to other matters						
1. Discuss fraud situations or fidelity bond losses	181	132.76	141	198.40	7558	.000
2. Review entity's insurance program	209	162.06	97	135.06	8347	.011
3. Approve or nominate independent auditors	206	168.24	175	217.80	13335	.000
4. Recommend or approve compensation for independent auditors	192	153.12	135	179.47	10871	.011
5. Review and approve selected officers' expenses	164	114.82	73	128.38	5301	.131
6. Approve signatures for bank accounts and borrowing	207	150.15	57	68.40	2246	.000
7. Review budgets and comparisons of budgets to actual results	226	162.64	60	71.39	2453	.000
8. Discuss entity's efforts to comply with legal and social obligations to employees, community, and others	201	146.17	65	94.31	3985	.000

*Underlying data were generated by Mautz and Neumann.

Discussion of the results rests upon the previous guidelines, namely, only the effectiveness of those functions for which no between group difference was found are examined. Two functions, the review of efforts to disclose social costs and obligations and the review and approval of selected officers' expenses, were among four that exhibited no between group differences for effectiveness ratings. These two functions have previously been identified as being among the ten least important and five least effectively pursued functions of both groups.

Lack of difference in the effectiveness ratings of functions between groups was also found for discussing the effective use and control of electronic data and discussing the adequacy of the accounting and financial staff. Recall that the former function also lacked a between group difference on importance. Ratings for importance and effectiveness of this function fall within the 3.0 to 3.3 range. The latter function, discussion of the adequacy of the financial and accounting staff, ranks on the border of the top to middle third in terms of the extent to which it is effectively pursued. Not surprisingly, the importance of the function received a similar ranking.

Board Characteristics

Those board characteristics which are related to FA/IC purposes and functions are addressed here. These characteristics include the type of committee structure of the board used to pursue FA/IC issues, the name of committees employed, the length of time the organizational structure in question was used, and significant changes in the last five years in the composition, responsibilities, or other characteristics describing how FA/IC issues are addressed. This is not to say that

items to be addressed in the next section are unrelated to purpose and functions, rather, only that a subjective determination showed some characteristics to be closer to purposes and functions than others.

Of the four possible board structures used to address FA/IC issues, hospital respondents indicated that 238 (91 percent) used some form of committee structure, while only 24 (9 percent) used the full board. Total committee structures' responses are broken down into the following: 51 single standing committees (21 percent), 125 joint standing committees (53 percent), and 62 multiple standing committees (26 percent). M&N corporate responses, although not classified by particular types of committee structures, indicate that 248 (87 percent) of corporations had committee structures to address FA/IC issues when their 1977 study was prepared. Approximately five years have passed since the M&N data were generated, and the number of corporations in the Fortune classifications with FA/IC committee structures now exceeds 90 percent (33). More to the point, hospitals, as maintenance organizations, are considered to be slow to respond to change (76). Comparison of the percents indicates that hospitals have responded and that they do have committee structures to address FA/IC issues. The five-year lag appears to be sufficient time for hospitals to respond to change in the corporate sector. On the other hand, perhaps the change should not be measured in the nominal terms of existence of a committee or name given a committee. Rather, change should only be looked at in terms of a continuum of FA/IC activities over which the extent of FA/IC functions undertaken could be measured. This latter approach appears to be ideal, although it is difficult to measure.

Although a more detailed analysis of the name of hospital FA/IC committees is done in the subsequent chapter, it is appropriate at this point to identify those hospital committees that use the term "audit" in their title. The name of the committee explicitly designates the general role of the committee; it says nothing of the scope of activities. Moreover, and maybe more importantly, the absence of the term "audit" should not be construed to mean a lack of attentiveness on issues commonly thought to be addressed by audit committees.

M&N speak only in terms of an audit committee, and in the instructions to their questionnaire, they carefully define an "audit committee" to include any committee which has a specific charge to supervise or review the work of independent or internal auditors. Questionnaires sent to hospital chief financial officers included this phrase, but also made reference to functional aspects of the assignment by stating any committee having a specific charge to address FA/IC issues. Throughout this chapter, all references have been made to FA/IC committees for both corporations and hospitals, and only for purposes of examining Table 4.15 is reference made to the phrase "audit committee."

Sixty-five (28 percent) of the hospitals supplying the name of their FA/IC committee structure responded that the term "audit" appeared in the committee title. Table 4.15 contains the types of committee structures and the frequency with which the term "audit" appeared within each type. As stated earlier, this should not be construed to mean that only a relatively small number of hospital boards pursue FA/IC issues via a committee structure.

TABLE 4.15

FREQUENCY WITH WHICH THE TERM "AUDIT" APPEARS IN THE NAME OF HOSPITAL FA/IC COMMITTEE(S)

Type of Committee Structure	Frequency of Respondents Per Structure	Name of Committee	Frequency of Respondents Per Structure
Single or Joint	172	Finance-Audit	10
		Audit	6
Multiple	62	Finance and Audit	20
		Finance, Audit, and A[a]	18
		Audit and B[a]	11
Total	234[b]		65

[a] A = More than two committees, where the third, fourth, etc. had one of a number of names.
B = More than one committee, where the second, third, etc. had one of a number of names.

[b] 238 responding hospitals have a committee structure to address FA/IC issues; four respondents did not indicate the name of their FA/IC committee.

Clearly, a difference exists between corporations and hospitals as to the number of years boards have had committee structures to address FA/IC issues. Table 4.16 contains a summary of the number of years boards from each sector have had an FA/IC committee(s) structure. Approximately 42 percent of hospitals have had such committee structures for more than ten years, while only about 18 percent of the corporations have had such a committee structure beyond that period. This difference is explained primarily by definition. Respondents from corporations were limited to answering in terms of a committee having a specific charge to supervise or review the work of independent or internal auditors; respondents from hospitals had the opportunity to answer in terms of any and all committees that addressed FA/IC issues, some of which are not primarily associated with the function of the independent or internal auditors, such as reviewing budgets. The initial thrust of hospital FA/IC committees is presumed to have been in the finance related activity of reviewing budgets (34). In an earlier section, this study pointed out that the most important and most effectively pursued hospital FA/IC committee function was reviewing budgets and making comparisons of budgets to actual results. Hospitals have been plagued with cost containment problems, and so the preoccupation with budgets does not seem unusual. Only later, it is assumed, did other FA/IC activities commence and take on importance.

No difference was noted between corporate and hospital respondents regarding any significant changes in the last five years in the composition, responsibilities, or other characteristics which describe the manner and extent FA/IC committees address issues pertinent to them.

TABLE 4.16

CHI-SQUARE TEST APPLIED TO THE NUMBER OF YEARS BOARDS HAVE HAD AN FA/IC COMMITTEE(S) STRUCTURE

	Number of Responses			
	Corporations*		Hospitals	
Term in Years	n	%	n	%
<3	66	26.6	16	6.7
3-5	89	35.9	42	17.6
6-10	48	19.4	81	34.0
11-20	20	8.1	44	18.5
>20	25	10.1	55	23.2
Total	248	100.0	238	100.0

Chi-Square Test Statistic	D.F.	Significance Level
75.869	4	.0000

*Underlying data were generated by Mautz and Neumann.

Table 4.17 indicates that approximately 80 percent of both respondent groups indicated no change in the composition, responsibilities, or other characteristics of FA/IC committees.

Given the apparently rapid popularization of a board committee concept to address FA/IC issues (33, 88), as indicated by the number of articles on the subject over the last ten years, it is hard to understand the responses from both groups. There has been a marked change in responses between the first and second M&N study. Are all these changes attributable to 16 percent of the respondents? If so, the changes would be incremental to the total number of committee structures and not reflect change within existing committees. M&N make an observation in their second study (with which this writer concurs) that these committees are dynamic in nature and evolve through three stages of development (88). Hospital respondents appear to echo the feelings of their corporate colleagues; most respond that no substantial change has occurred in the last five years. As maintenance organizations, it could be anticipated that more hospitals would have responded affirmatively to the question of change; moving in the direction of a more inquisitive, knowledgeable, self-directed and, therefore, independent body. One potential answer is that the previous statements about both corporate and hospital boards are true with the solution lying in the fact that each of the various stages of growth takes a longer period of time than five years. Even this logic is tainted by the realization that growth or change is usually not a discrete, but a continuous, phenomenon.

TABLE 4.17

CHANGE IN THE COMPOSITION, RESPONSIBILITIES, OR OTHER CHARACTERISTICS OF FA/IC COMMITTEES WITHIN THE LAST FIVE YEARS

	Number of Responses			
Type of Response	Corporations*		Hospitals	
	n	%	n	%
Yes	37	16.5	55	23.4
No	187	83.5	180	76.6
Total	224	100.0	235	100.0

Chi-Square Test Statistic	D.F.	Significance Level
2.977	1	.0844

*Underlying data were generated by Mautz and Neumann.

Attention now turns to the second phase of the analysis dealing with structural practices and procedures of FA/IC committees.

C. STRUCTURAL PRACTICES AND PROCEDURES

Introduction

Size and composition, term of office, and number of meetings of the full board and FA/IC committees are treated in this section. Full board and FA/IC committee structures are treated separately. The term composition refers to the division between officer trustees and non-officer trustees; the former means individuals who serve their entity as a member of management, while the latter stands for those who are not obvious insiders and, therefore, give the appearance of being independent. Activities and relationships which could possibly impair the independence of board members and thwart their ability to serve as effective committee members are also examined.

Full Board Structure

Corporations and hospitals differ on all but one of the structural characteristics of their respective full boards. Table 4.18 provides the data on which this discussion is based. Appendix Tables B.7, B.8, and B.9 contain full data sets for both groups. Differences exist on total membership, number of non-officer members, and the number of years in office. An examination of the composite median based upon a pooling of corporate and hospital responses, and directional data, number of responses below and above the median, indicates hospital boards of trustees have larger total board memberships than corporations. Size of the board, when considered in conjunction with the idea that

TABLE 4.18

ANALYSIS OF CHARACTERISTICS REGARDING CORPORATE BOARDS OF DIRECTORS AND HOSPITAL BOARDS OF TRUSTEES

Characteristic	Median	Number of Corporations*		Number of Hospitals		Median Test Statistic	Two-Tailed Probability
		Above Median	Below Median	Above Median	Below Median		
Total membership	15	62	178	126	78	56.852	.000
Non-officer members	10	49	184	151	45	131.957	.000
Term of office in years	2	50	173	140	60	94.555	.000
Average meetings per year:							
Regular	10	83	151	108	73	23.092	.000
Special	1	37	100	51	85	2.976	.084
Total	11	55	145	109	74	38.824	.000
Average length of meetings in hours	2	145	86	56	131	43.297	.000

*Underlying data were generated by Mautz and Neumann.

members of a community have a stake in financial soundness of the hospital, supports the feasibility of a committee structure to address FA/IC issues. The feasibility of an FA/IC committee structure diminishes rapidly when the size of the full board is small and/or when the external constituents are small or non-existent.

Using the median as a guide and pooling the responses of both groups, approximately two-thirds of board memberships are comprised of non-officer members. The median term of office of the combined groups is two years. The average number of regular and special meetings for the combined groups is ten and one per year respectively. Length of meetings averages two hours on a combined basis.

When a comparison is made of the trend, number above or below the median, against the pooled median, proportionally more hospitals exceed the median in all but two cases. They have more members, more non-officer members, a longer term of office, and more regular meetings. This seems to be naturally complemented by their fewer numbers of special meetings and the apparent need to have less lengthy meetings. One less than positive conclusion can be drawn; the longer term of office for hospital board members would seem to support earlier studies made on the length of terms of office and, therefore, the notion of self-perpetuating boards (45).

Not surprisingly, the application of the Median Test points out a difference on all but one item; no difference was found between groups on the number of special meetings.

FA/IC Committee Structure

Turning attention to the comparison of characteristics of FA/IC committees (Table 4.19), differences are encountered on every item. Appendix Tables B.10 and B.11 contain full data sets for both groups. The composite median committee membership is five people. Approximately 65 percent of hospital committees have more than five members, while 80 percent of corporations have less than that number. Larger hospital FA/IC committees are due to the fact that members of joint committees, those pursuing tasks other than only FA/IC issues, and multiple committees, situations where more than one committee at a hospital pursues FA/IC issues, are aggregated into one pool for purposes of determining the number of board committees and therefore members who pursue FA/IC issues. The number and trend of non-officer members approximate total committee membership for each group respectively. The composite median term of committee office is one year, with only 8 percent of corporate terms exceeding that amount; term of committee office in hospitals exceeds one year in 47 percent of the cases. This longer term of office for hospital committee members is good from the standpoint of an intensive learning experience which enhances the probability of the board member doing a credible job (59). Too long a term may stifle creativity and inquisitiveness, prevent fresh blood from gaining access to the committee, and may perpetuate committee membership.

The number of hospital FA/IC committee meetings exceeds the composite median of four in 71 percent of the cases, while corporations exceed that median in only 6 percent of the cases. Special meetings and total meetings follow a trend similar to that cited above. The

TABLE 4.19

ANALYSIS OF CHARACTERISTICS REGARDING FA/IC COMMITTEE STRUCTURES OF CORPORATE BOARDS OF DIRECTORS AND HOSPITAL BOARDS OF TRUSTEES

Characteristic	Median	Number of Corporations*		Number of Hospitals		Median Test Statistic	Two-Tailed Probability
		Above Median	Below Median	Above Median	Below Median		
Total membership	5	22	218	138	75	150.400	.000
Non-officer members	4	45	180	121	79	71.272	.000
Term of office in years	1	17	191	93	104	75.965	.000
Average meetings per year:							
Regular	4	15	214	145	59	190.068	.000
Special	1	31	92	90	69	26.646	.000
Total	4	31	167	170	47	160.385	.000
Average length of meetings in hours	2	68	159	20	195	28.258	.000

*Underlying data were generated by Mautz and Neumann.

length of meetings averaged two hours across both corporations and hospitals with 30 percent of corporations and 9 percent of hospitals exceeding that time. Similar to activities of their respective full boards, hospital FA/IC committee meetings are more numerous and shorter, while corporate audit committees have less frequent but longer meetings. This appears logical since board members of larger corporations often travel great distances for meetings, therefore meeting less often but for longer periods; hospitals, being more community-oriented, have more frequent and less lengthy meetings.

Independence of FA/IC Committee Members

To the question, "Are there any members of your FA/IC committee(s) who are officer trustees?" a difference was noted between the groups. Table 4.20 contains a summary of responses. Hospitals have a substantially greater proportion of officer trustees on their FA/IC committees than do corporations. M&N identify this as a characteristic of a committee structure which is in the formative stage of development (88). This would support the contention that hospitals, as maintenance organizations, are slower to respond to change as more of their FA/IC committees are in the formative stage of development. Only as the number of officer-members decreases and their roles as committee chairman and vice-chairman decline will the committee develop more of an independent personality and pursue issues on its own. The position of committee chairman is a powerful one and can dictate the direction and activity or inactivity of the committee (142, 143).

Independence is a critical issue in discussing the effective functioning of the FA/IC committee of corporate and hospital boards.

TABLE 4.20

EXISTENCE OF OFFICER BOARD MEMBERS ON FA/IC COMMITTEES

Type of Response	Number of Responses			
	Corporations*		Hospitals	
	n	%	n	%
Yes	49	20.3	113	49.6
No	192	79.7	115	50.4
Total	241	100.0	228	100.0

Chi-Square Test Statistic	D.F.	Significance Level
42.987	1	.0000

*Underlying data were generated by Mautz and Neumann.

The literature contains many recommendations concerning the need for retrieving and retaining board members who are independent of management and whose relationship with the firm which they serve as a board member is not encumbered by apparently compromising activities and/or relationships (42, 84, 98, 113). Table 4.21 provides an analysis of responses, and Appendix Table B.12 contains the frequency counts of responses to four potentially compromising situations. Each situation was phrased a bit differently for respondents in each group to more properly reflect the environment in which board members find themselves. The differences in phraseology are not believed to have altered materially the essence of the situation nor the analysis of the results. To each situation, respondents were asked to state how the activity or relationship identified would limit the capacity in which a person could serve on an FA/IC committee. Capacity is defined as chairperson, member only, or unacceptable as a member. For purposes of generating a test statistic, weights of three, two, and one were assigned to chairperson, member only, and unacceptable as member responses, respectively. Non-respondents were not included in the calculation of the test statistic.

The frequency counts, Appendix Table B.12, indicate a similar trend of frequency counts between corporate and hospital respondents across all four situations. Most corporate respondents feel that board members holding some bonds and performing no other duties could serve as chairperson or member of the FA/IC committee; hospital respondents, on the other hand, are almost equally divided between the chairperson and member only designation. In all other situations, a near majority

TABLE 4.21

ASSESSING THE EXTENT OF AGREEMENT BETWEEN CORPORATE AND HOSPITAL RESPONDENTS AS TO THE ACCEPTABILITY OF STATED ACTIVITIES AND RELATIONSHIPS FOR COMMITTEE MEMBERS ASSIGNED TO ADDRESS FA/IC ISSUES

Activity and Relationship	Corporations* n	Corporations* Mean Ranks	Hospitals n	Hospitals Mean Ranks	Mann-Whitney U Test Statistic	Two-Tailed Probability
CORPORATIONS HOSPITALS						
A MEMBER OF THE BOARD OF DIRECTORS WHO HOLDS.						
A MEMBER OF THE BOARD OF TRUSTEES WHO HOLDS						
some of the company's bonds and performs no duties other than those of a director.	226	272.42	228	182.97	15612.0	.000
some of the hospital's bonds and performs no duties other than those of a director.						
stock in the company and serves as a consultant to the company. The value of his stock (including dividends and capital value) exceeds the value of his fees as a consultant.	226	256.01	228	199.24	19321.0	.000
bonds in the hospital and serves as a consultant to the hospital. The value of his bonds (including interest and principal value) exceeds the value of his fees as a consultant.						

TABLE 4.21 (Continued)

Activity and Relationship	Corporations* n	Corporations* Mean Ranks	Hospitals n	Hospitals Mean Ranks	Mann-Whitney U Test Statistic	Two-Tailed Probability
substantial amount of stock in the company and serves as the chief operating officer for a major division of the company. The value of his stock (including dividends and capital value) exceeds the value of his income as an executive a substantial amount of bonds in the hospital and serves as one of the chief officers. The value of his bonds (including interest and principal value) exceeds the value of his income as an executive.	227	190.48	227	264.52	17360.0	.000
no stock or bonds in the company and who is affiliated with the company's primary underwriter. no bonds in the hospital and who is affiliated with the hospital as a primary insurance or securities underwriter.	221	215.34	230	236.24	23059.5	.057

*Underlying data were generated by Mautz and Neumann.

of respondents from both groups feel the activity and relationship would prevent a person from even serving as a member.

Both corporate and hospital boards have been criticized for having people on their boards whose independence could be questioned (42, 58). It appears from the frequency counts that many respondents are cognizant of the criticism boards have received in the past and are attempting to rectify the situation and/or recognize the attributes of independence that a person on such a committee should possess.

Despite a similar trend in responses between groups, Table 4.21 reveals that the results of the Mann-Whitney U Test turned up only one situation in which no between group difference exists. No difference exists on their views of board members holding securities and who are affiliated with the entity in an underwriting capacity--up to approximately half felt the situation would prohibit membership on an FA/IC committee.

D. CONCLUSIONS

Substantial differences exist between corporations and hospitals concerning the manner and extent that board committees address FA/IC issues. In the corporate setting, respondents viewed as important the committee's personal contact with the external auditor. In turn, the committees most frequently pursue and view as most important those functions related to the independent auditor. Respondents from hospitals, on the other hand, view contact with the hospital financial officer as important. The most important hospital FA/IC committee functions are dispersed across a wide range of functions that appear to be

indicative of the industry's environment, primarily concerned with cost containment and risk management.

In the aggregate, hospital FA/IC committees appear to be in an earlier or initial stage of development. They appear less concerned to deal with the independent auditor and his duties and to place more reliance and emphasis on dealings with officer trustees who serve on committees and the chief financial officer. Concern with audit functions, internal and external, is apparently diluted by the need of hospitals to address such efficiency-oriented functions as reviewing budgets and comparing them to actual. However, efficiency of operations can be gained by the implementation of an internal audit staff to work on operational auditing tasks. This function might possibly be shared in a manner similar to the way hospitals currently share purchasing and laundry functions.

CHAPTER V

ANALYSIS OF RESULTS: THE MANNER AND EXTENT TO WHICH HOSPITALS PURSUE FA/IC ISSUES WHEN CLASSIFIED BY BOARD STRUCTURE

This chapter examines the manner in which alternative hospital board structures address FA/IC issues. A board of trustee structure employed to deal with FA/IC matters may include a single standing committee, a joint standing committee, multiple standing committees, or the full board. Where one committee is appointed to deal exclusively with FA/IC matters, a single standing committee exists. A joint standing committee is one that fulfills all of the FA/IC duties and also acts in another capacity, such as with personnel or quality assurance. Multiple standing committees exist when more than one committee of the board shares FA/IC duties. Where no committee structure exists to address FA/IC issues, only the full board is available to deal with such matters.

This chapter is divided into five sections. FA/IC purposes and functions are examined in the first section, while structural practices and procedures are covered in the second section. Strengthening the trustee's role and selected aspects of the internal and external audit functions are covered in the next two sections. Relationships between FA/IC board structure and other institutional attributes are presented in the fifth section.

The quantity of data generated in this study requires that the same techniques employed in the previous chapter be used to reduce the data to manageable size. The techniques include presenting comparative

summaries of the five most and least frequent and important FA/IC purposes and functions in the body of the chapter; related tables in Appendix C contain full data sets. A 5 percent level serves as a point for determining significant differences between groups and also for determining which items or characteristics are discussed. Also, tables containing the results of statistical tests are limited to items having a significance level of 5 percent or less.

A. FA/IC PURPOSES AND FUNCTIONS

Introduction

A method similar to the one employed in the previous chapter is used here to present the material. Purposes are examined first and are subdivided among discussions of the five most and least frequent purposes, the five most and least important purposes, and those purposes that are significantly different among hospital board structures concerning ratings of importance. Functions are treated in an identical manner. In addition, the five most and least effectively pursued functions are examined along with the between board structure differences of effectiveness ratings.

Adjustments are made for ties in the presentation of comparative summary tables for FA/IC purposes and functions. For example, if two items were tied for the first rank and four were tied for the second rank, then six items would be contained in the table. In all cases, the original tied rank is retained. Discussion of the contents of each table first centers around items similar to all hospital board structures and then moves to related items that are common to a category,

such as providing more contact between board members and either the independent auditor or financial officer of the hospital. Any remaining items are then discussed. In short, items are discussed in order of their commonality to the board structures.

Complete frequency tables are contained in Appendix C, and reference to them is mentioned at the appropriate time in the text. These tables contain the ranking of the highest and lowest ten purposes in terms of frequency and importance and the highest and lowest ten functions in terms of frequency, importance, and effectiveness. This ranking scheme divides each characteristic in questions approximately into thirds: high, low, and middle third. As the number of ties for the frequency or rating of importance of items increases, the middle third items, those not in either the top or bottom ten, decrease.

The alpha-numeric notation employed in the questionnaire is retained in the tables in the text, as well as in those tables in the appendix, so the reader has a ready reference for making comparisons among tables.

Frequency of FA/IC Purposes

A comparative summary of the five most frequently identified purposes for pursuing FA/IC issues is provided in Table 5.1, while Appendix Tables C.1 through C.4 contain the full data set for all structures. Identified by all groups are the FA/IC purposes of providing a direct and personal contact on a regular basis between non-officer trustees and the financial officer of the hospital, giving evidence of due care in the performance of trusteeship responsibilities, and evidencing a responsible attitude by management. The latter two purposes provide

TABLE 5.1

A COMPARATIVE SUMMARY BY HOSPITAL BOARD STRUCTURE OF THE FIVE MOST FREQUENTLY IDENTIFIED PURPOSES FOR PURSUING FA/IC ISSUES

Most Frequently Identified Purposes for Pursuing FA/IC Issues	Hospital Committee Structures											
	Single (n = 51)			Joint (n = 125)			Multiple (n = 62)			Full Board (n = 24)		
	n	%	Rank	n	%	Rank	n	%	Rank	n	%	Rank
A. To provide a direct and more personal contact on a regular basis between non-officer trustees and:												
3. The financial officers of the hospital.....	50	98.039	1	122	97.600	2	61	98.387	2	21	87.500	3
B. Utilize a committee to relieve the board of trustees as a whole, of details regarding:												
3. The review of the results of the independent audit.....				121	96.800	3						
C. Utilize a committee to provide an advisory group for:												
1. The financial officers of the hospital.....	49	96.078	2									
3. The board of trustees.....				121	96.800	3						
E. To give additional attention to the audit function performed by:												
1. The independent auditors.....							62	100	1			
F. To strengthen the objectivity and independence of:												
1. The independent auditors.....							61	98.387	2			
G. To improve the knowledge and understanding of non-officer												
1. The nature, scope, and limits of the audit function.....										21	87.500	3
2. The existence and role of accounting and internal financial and operational controls.....	50	98.039	1				61	98.387	2	21	87.500	3

TABLE 5.1 (Continued)

Most Frequently Identified Purposes for Pursuing FA/IC Issues	Hospital Committee Structures											
	Single (n = 51)			Joint (n = 125)			Multiple (n = 62)			Full Board (n = 24)		
	n	%	Rank	n	%	Rank	n	%	Rank	n	%	Rank
3. The generally accepted accounting and reporting practices and responsibilities	49	96.078	2							21	87.500	3
4. The financial statements and alternative sources of information	49	96.078	2				61	98.387	2	21	87.500	3
5. The hospital, its operations, and financial issues				123	98.400	1				21	87.500	3
H. To improve effectiveness of internal financial and operational control systems										21	87.500	3
I. To give added attention to the information system and reporting practices.	50	98.039	1	123	98.400	1				23	95.833	1
J. To evaluate accounting and financial policies, procedures and personnel				121	96.800	3	61	98.387	2	23	95.833	1
K. To participate in specific audit and review activities												
L. To give evidence of due care in the performance of one's trusteeship responsibilities	49	96.078	2	121	96.800	3	61	98.387	2	21	87.500	3
M. To evidence a responsible attitude by management	49	96.078	2	122	97.600	2	61	98.387	2	22	91.667	2
O. To appraise policies and procedures to prevent illegal and unethical hospital acts							61	98.387	2	23	95.833	1

support of respondents' awareness of criticisms directed at hospital boards generally (38) and, in turn, their identification of FA/IC purposes to address such criticism.

Interestingly, personal contact between board structures and the independent auditor, although not appearing in Table 5.1, does occur with a frequency of not less than 90 percent for FA/IC committee structures, but is among the least frequently identified purposes (66 percent) where the full board addresses FA/IC issues. Personal contact and, therefore, power appear to be retained by hospital financial officers of full board structures, while committee structures appear to dilute the power of the financial officer. This is not a criticism of financial officers; on the contrary, financial officers whose hospitals have a committee structure probably have played a significant role in establishing the committee. This has been the case in the corporate sector (88). Dilution of power takes place as more FA/IC experts have access to the board or its committees.

Single and multiple committees, as well as the full board, identified among their most frequent FA/IC purposes improving the knowledge and understanding of trustees with regard to the existence and role of financial accounting and internal controls, and the financial statements and alternative sources of information. These purposes are frequently pursued by joint committees but not often enough to be included among the five most frequently pursued FA/IC purposes. Improving the knowledge and understanding of hospital board members has often been cited as an area needing attention (45, 85). Here evidence is offered as to the high frequency with which respondents identified these purposes.

Also among the most frequently identified FA/IC purposes by two committee structures and the full board were evaluating accounting and financial policies, procedures, and personnel, and giving attention to the information system and reporting practices. As in the preceding paragraph, the single committee structure just missed having these purposes included among those most frequently pursued.

Three FA/IC purposes are identified by two board structures as being among their most frequently identified. They include improving the knowledge and understanding of board members regarding generally accepted accounting and reporting practices, the hospital and its operations and financial issues, and appraising policies and procedures to prevent illegal and unethical hospital acts. Note that the other board structures identified these purposes not less than 94 percent of the time. The first two of these purposes are associated with those educational purposes cited earlier. The third purpose, dealing with unethical behavior, is appropriately among those most frequently identified in light of the tremendous exposure given fraud and abuse in hospital settings (38, 43, 135).

Five purposes in Table 5.1 are associated with only one board structure. Reviewing the results of the independent audit is a purpose of not less than 92 percent of any FA/IC committee structure. Giving attention to the audit function performed by the independent auditors is a purpose of not less than 88 percent of any FA/IC committee structure and 83 percent of full boards; strengthening the objectivity and independence of the independent auditors is a purpose of not less than 84 percent of FA/IC committees and 79 percent of full boards. Improving

the knowledge and understanding of board members regarding the nature, scope, and limits of the audit function is a purpose of at least 93 percent of all committee structures and 87 percent of full boards. These four purposes have two things in common: first, they all relate to the independent auditor, and second, full boards have consistently identified purposes less frequently than any committee structure. Not less than 92 percent of all committee structures and 87 percent of full boards identify the FA/IC purpose of improving the effectiveness of internal financial and operational control systems. A question related to full board structures is raised which sets the stage for the following paragraph: How can purposes cited at the beginning of this paragraph be effectively pursued without an equivalent purpose of providing a direct and more personal contact between board members and the independent auditors?

As can be seen from the size of Table 5.1, a large number of purposes have been identified as being pursued. Examination of Appendix Tables C.1 through C.4 reveals so many ties among purposes that the middle-third tier of purposes, those between the high and low ten, is non-existent.

Table 5.2 is a comparative summary of the five least frequently identified purposes. The reader should note the uniformity among the committee structures; identified as least frequently pursued are all those FA/IC purposes associated with the internal auditor. Hospitals with multiple FA/IC committee structures more frequently identified purposes associated with internal auditors than did either single or joint committees. This might be explained by the fact that when more

TABLE 5.2

A COMPARATIVE SUMMARY BY HOSPITAL BOARD STRUCTURE OF THE FIVE LEAST FREQUENTLY IDENTIFIED PURPOSES FOR PURSUING FA/IC ISSUES

Least Frequently Identified Purposes for Pursuing FA/IC Issues	Hospital Committee Structures											
	Single (n = 51)			Joint (n = 125)			Multiple (n = 62)			Full Board (n = 24)		
	n	%	Rank	n	%	Rank	n	%	Rank	n	%	Rank
A. To provide a direct and more personal contact on a regular basis between non-officer trustees and:												
1. The independent auditors.....										16	66.667	5
2. The internal auditors.....	19	37.255	4	44	35.200	3	29	46.774	1	4	16.667	1
B. Utilize a committee to relieve the board of trustees, as a whole, of details regarding:												
4. The review of the results of the internal audits.....	17	33.333	3	44	35.200	3	33	53.226	4			
C. Utilize a committee to provide an advisory group for:												
2. The internal auditors.....	15	29.412	1	42	33.600	2	30	48.387	2			
D. To provide an additional check on financial reports before their release to the public.....										15	62.500	4
E. To give additional attention to the audit function performed by:												
2. The internal auditors.....	16	31.373	2	39	31.200	1	32	51.613	3	7	29.167	3
F. To strengthen the objectivity and independence of:												
2. The internal auditors.....	17	33.333	3	39	31.200	1	32	51.613	3	6	25.000	2

committees concentrate their efforts on FA/IC issues, individual committees within a multiple group can each focus attention on different purposes. Conversely, the full board, as one working unit, identified internal auditor related purposes less than any committee structure.

Logically, respondents having only a full board structure to address FA/IC issues were unable to respond to FA/IC purposes associated with a committee structure. For this reason, two other least frequently identified FA/IC purposes are shown in Table 5.2. The purpose of providing an additional check on financial reports before their release to the public is also among those least frequently identified by all committee structures even though not among the bottom five. Surprisingly, full board structures identify among their least frequent purposes that of providing a direct and more personal contact on a regular basis between board members and the independent auditor. This latter purpose is one of a few that can be considered critical to the whole process of increasing the independence of both the board and the independent auditor and the awareness of critical issues by the board (39, 59, 111).

Importance of FA/IC Purposes

A comparative summary of the five most important purposes for pursuing FA/IC issues is provided in Table 5.3. All purposes identified in Table 5.3 also appear in Table 5.1, page 137, the conclusion being that a positive correlation exists between frequency of purposes identified and the degree of importance assigned purposes. Also, each of the purposes in Table 5.3 is among the ten most important purposes of all board structures with the exception of those purposes limited only to committee structures.

TABLE 5.3

A COMPARATIVE SUMMARY BY HOSPITAL BOARD STRUCTURE OF THE FIVE MOST IMPORTANT PURPOSES FOR PURSUING FA/IC ISSUES

Most Important Purposes for Pursuing FA/IC Issues	Hospital Committee Structures: Single (n = 51) Median Score	Single Rank	Joint (n = 125) Median Score	Joint Rank	Multiple (n = 62) Median Score	Multiple Rank	Full Board (n = 24) Median Score	Full Board Rank
A. To provide a direct and more personal contact on a regular basis between non-officer trustees and:								
3. The financial officers of the hospital	4.467	3	4.581	2	4.561	1	4.000	2
B. Utilize a committee to relieve the board of trustees, as a whole, of details regarding:								
3. The review of the results of the independent audit			4.425	4	4.342	4		
C. Utilize a committee to provide an advisory group for:								
1. The financial officers of the hospital			4.240	5				
3. The board of trustees	4.621	1	4.806	1	4.531	2		
G. To improve the knowledge and understanding of non-officer trustees regarding:								
4. The financial statements and alternative sources of information							3.900	3
5. The hospital, its operations, and financial issues	4.589	2	4.553	3	4.455	3	4.643	1
L. To give evidence of due care in the performance of one's trusteeship responsibilities	4.059	5					3.900	3
M. To evidence a responsible attitude by management	4.333	4			4.200	5	4.000	2

All four board structures place among their five most important FA/IC purposes to provide a direct and more personal contact on a regular basis between board members and the financial officers of the hospital. Although not contained in Table 5.3, contact between board members and the independent auditor was not perceived to be nearly as important; median scores of importance of 2.7, 2.8, 3.6, and 1.2 were assigned by single, joint, and multiple committees and full boards respectively. Using the ranking scale as a guide, one could conclude that respondents from hospitals with an FA/IC committee structure view contact between board members and the independent auditor as moderately important, while respondents without an FA/IC committee structure view such contact as being of low importance. Clearly, the power of financial officers is greatest in non-committee hospitals since the importance of board contact with the CPA auditor is regarded as low in importance; this only reduces the meaning of substantive contact between the board and other FA/IC experts and heightens the reliance by the board upon the financial officer. This same financial officer is not independent of the financial workings of his institution. As the financial officer is knowledgeable about and responsible for the financial affairs of the hospital, he has the power to control the nature, extent, and timing of information presented to the board. It is from this that he acquires and retains his power.

The power of the financial officer is diluted when contact with other FA/IC experts, such as the independent auditor, is seen as important. This is the case where FA/IC committee structures exist. Mautz and Neumann found that a critical characteristic for formation of these

committees in the corporate sector rested upon the support and encouragement of corporate executives including the chief financial officer (88). There is no reason to doubt that this is not the case with hospitals. It is assumed that financial officers in hospitals with FA/IC committees are unafraid to dilute their control of information and contact with the committee because they believe it in the best interest of the hospital for the committee to have access to other FA/IC experts.

Consistent with the previous emphasis on the frequency with which purposes related to improving the knowledge and understanding of board members was cited, the importance of this thrust continues with regard to the hospital, its operations, and financial issues. The recurring theme of the importance of trustee education in the literature appears to have been adopted by respondents. In addition, respondents from full board structures feel the purpose of improving the knowledge and understanding of board members about financial statements and alternative sources of information is among the most important purposes.

Respondents from institutions with a committee board structure agree that the committee should serve as an advisory group for the full board of trustees. This seems appropriate given the basic objectives of any committee structure, acting as part of the whole and thereby having the opportunity to devote time and effort to substantive issues of concern to the full board (107, 142). Table 5.3 indicates respondents representing committee structures had somewhat mixed feelings about utilizing a committee structure to relieve the board of trustees, as a whole, of details regarding a review of the results of the independent audit and using the committee as an advisory group for financial officers

of the hospital. Rankings of these purposes were in the top third in importance for all purposes for those committee structures for which no scores and ranks are shown.

The importance of the stewardship role played by the board is clearly evidenced when FA/IC purposes in Table 5.3 are examined. Respondents viewed as important the fulcrum position of the board's responsibility both to external constituents and to oversee management's activities. Both of these stewardship roles have been emphasized in the literature (18, 19, 57).

Common to all committee structures and identified as being among the least important purposes are those associated with the internal auditor. Table 5.4 contains a comparative summary of the five least important FA/IC purposes. Multiple committees view these purposes as being two to four times as important as the other committee structures; however, all regard these purposes as being of little consequence. The higher median scores of importance of multiple committee structures probably reflect the fact that a greater number of these committees have internal auditors on whom the committees rely. Recall that median scores of importance were generated using all respondents; those purposes not identified as purposes of their FA/IC board structure were assigned a score of zero, as it was assumed they were unimportant.

All hospitals appear to lack enthusiasm for internal auditor related FA/IC purposes. Much has been written on the paucity of the internal audit function in hospitals, on the need to nurture such a function, and on the benefits accruing to institutions developing such a function (15, 108). The evidence presented here illustrates the

TABLE 5.4

A COMPARATIVE SUMMARY BY HOSPITAL BOARD STRUCTURE OF THE FIVE LEAST IMPORTANT PURPOSES FOR PURSUING FA/IC ISSUES

Least Important Purposes for Pursuing FA/IC Functions	Hospital Committee Structures: Single (n = 51) Median Score	Single Rank	Joint (n = 125) Median Score	Joint Rank	Multiple (n = 62) Median Score	Multiple Rank	Full Board (n = 24) Median Score	Full Board Rank
A. To provide a direct and more personal contact on a regular basis between non-officer trustees and:								
2. The internal auditors.....	.297	4	.272	3	.439	1	.10	1
B. Utilize a committee to relieve the board of trustees, as a whole, of details regarding:								
4. The review of the results of the internal audits.....	.250	3	.272	3	1.000	5		
C. Utilize a committee to provide an advisory group for:								
2. The internal auditors.....	.208	1	.253	2	.469	2		
D. To provide an additional check on financial reports before their release to the public.....							1.000	5
E. To give additional attention to the audit function performed by:								
2. The internal auditors.....	.229	2	.227	1	.643	4	.206	3
F. To strengthen the objectivity and independence of:								
2. The internal auditors.....	.250	3	.227	1	.611	3	.167	2
K. To participate in specific audit and review activities.....							.917	4

inability and/or unwillingness of hospitals to develop internal audit functions.

Respondents from full board structures, unable to select FA/IC purposes associated with committees, had two additional purposes that they perceived to be of little importance. These purposes include providing an additional check on financial statements before their release to the public and participating in specific audit and review activities. Committee structures also assign low priority to these purposes. However, the scores were not low enough to include among their five least important purposes.

Table 5.5 contains those purposes for which an overall difference in importance between FA/IC board structures was found to exist. Table 5.6 presents the source of these differences in the ratings of importance, namely, which pairs of board structures are contributing toward the overall difference found to exist in the previous table. Only purposes having a significant difference between board structures appear in these tables. The Bonferroni technique for multiple comparisons was used to determine a significance level for testing pairs of board structures. A two percent significance level was used when examining individual contrasts using the Mann-Whitney U Test. The results of the test appear in Table 5.6. The material from both tables is discussed simultaneously, as it relates to identical purposes being examined. At the outset, it should be noted that the five least important purposes previously discussed are all among those items listed in Table 5.5.

TABLE 5.5

KRUSKAL-WALLIS TEST APPLIED TO THE IMPORTANCE OF POSSIBLE PURPOSES FOR ADDRESSING FA/IC ISSUES

Possible Purposes for Addressing FA/IC Issues	Mean Rank of Importance				Kruskal-Wallis Test Statistic	Significance Level
	Hospital Committee Structures					
	Single	Joint	Multiple	Full Board		
A. To provide a direct and more personal contact on a regular basis between non-officer trustees and:						
1. The independent auditors.....	125.74	130.14	158.23	81.81	19.118	.000
2. The internal auditors.....	134.01	126.42	150.64	103.21	10.686	.014
B. Utilize a committee to relieve the board of trustees, as a whole, of details regarding:						
1. The nomination of the independent auditors.....	105.20	113.36	143.65	N/A*	11.149	.004
2. The arrangements for the independent audit.....	112.84	110.18	143.77	N/A	10.867	.004
4. The review of the results of the internal audits.....	112.87	112.79	138.48	N/A	8.210	.016
C. Utilize a committee to provide an advisory group for:						
3. The board of trustees.....	107.78	130.12	107.73	N/A	8.478	.014
E. To give additional attention to the audit function performed by:						
1. The independent auditors.....	116.62	136.80	155.77	72.83	24.343	.000
2. The internal auditors.....	126.88	123.54	155.28	121.31	11.045	.011
F. To strengthen the objectivity and independence of:						
1. The independent auditors.....	113.68	140.62	144.66	87.88	15.020	.002
2. The internal auditors.....	128.59	124.16	154.62	116.19	10.906	.012
J. To evaluate accounting and financial policies, procedures, and personnel..	128.68	131.12	147.95	96.96	8.360	.039
K. To participate in specific audit and review activities.....	124.67	134.16	146.73	92.83	9.951	.019

*Only respondents whose hospitals had a committee structure to address FA/IC issues answered sections B and C.

TABLE 5.6

MANN-WHITNEY U TEST APPLIED TO THE IMPORTANCE OF POSSIBLE PURPOSES FOR PURSUING FA/IC ISSUES: CONTRASTS OF BOARD STRUCTURES WHERE A COMPOSITE DIFFERENCE BETWEEN GROUPS EXISTS

Possible Purposes for Addressing FA/IC Issues	Board Structures Compared[a]		Mean Ranks[b]		Mann-Whitney U Test Statistic	Two-Tailed Probability
A. To provide a direct and more personal contact on a regular basis between non-officer trustees and:						
1. The independent auditors	1	4	42.22	29.04	397.0	.013
	2	3	86.93	108.26	2991.0	.009
	2	4	79.68	50.63	915.0	.002
	3	4	49.83	27.15	351.5	.000
2. The internal auditors	2	3	88.10	105.90	3137.5	.016
	3	4	47.65	32.79	487.0	.005
B. Utilize a committee to relieve the board of trustees, as a whole, of details regarding:						
1. The nomination of the independent auditors . . .	1	3	46.94	65.27	1068.0	.003
	2	3	86.13	109.87	2891.0	.004

TABLE 5.6 (Continued)

Possible Purposes for Addressing FA/IC Issues	Board Structures Compared[a]		Mean Ranks[b]		Mann-Whitney U Test Statistic	Two-Tailed Probability
B. 2. The arrangements for the independent audit .	1	3	48.65	63.87	1155.0	.013
	2	3	85.37	111.40	2796.0	.002
4. The review of the results of the internal audits	1	3	48.65	63.87	1155.0	.013
	2	3	87.24	107.64	3029.5	.006
C. Utilize a committee to provide an advisory group for:						
3. The board of trustees	2	3	99.92	82.07	3135.5	.012
E. To give additional attention to the audit function performed by:						
1. The independent auditors	1	3	47.93	64.46	1118.5	.006
	2	4	80.88	44.40	765.5	.000
	3	4	51.31	23.31	259.5	.000

TABLE 5.6 (Continued)

Possible Purposes for Addressing FA/IC Issues	Board Structures Compared[a]		Mean Ranks[b]		Mann-Whitney U Test Statistic	Two-Tailed Probability
E. 2. The internal auditors	2	3	86.36	109.40	2920.0	.002
F. To strengthen the objectivity and independence of:						
1. The independent auditors	2	4	79.92	49.40	885.5	.001
	3	4	48.77	29.88	417.0	.001
2. The internal auditors	2	3	86.75	108.62	2968.5	.003
J. To evaluate accounting and financial policies, procedures and personnel	3	4	48.16	31.46	455.0	.004
K. To participate in specific audit and review activities	2	4	79.01	54.10	998.5	.007
	3	4	48.08	31.67	460.0	.005

[a]Board structures consist of a single standing committee (1), joint standing committee (2), multiple standing committees (3), and the full board (4).

[b]The mean on the left corresponds to the first group mentioned and the mean on the right corresponds to the second group mentioned. The importance rating ran from a high of 5 through a low of 0.

A difference between board structures exists regarding the importance of the purpose of providing a direct and personal contact between FA/IC board structures and the independent auditor. Each form of committee structure differs from the full board. A difference also exists between joint and multiple committee structures. Recall from the discussion of the importance of purposes that respondents having committee structures viewed contact with the independent auditor as moderately important; respondents from full boards viewed such contact as being of low importance.

Four purposes associated with the internal audit function were rated among the least important and contain between board structure differences: 1) providing contact between trustees and internal auditors, 2) utilizing a committee to review the results of internal audits, 3) giving additional attention to the internal audit function, and 4) strengthening the objectivity and independence of the internal auditor. A consistent source of differences across these purposes exists between joint and multiple committees. A difference between multiple committee structures and full boards also exists for the purpose of providing contact between trustees and the internal auditor.

Participation in specific audit and review activities was among the least important and also had between board structure differences. Differences exist between joint committees and the full board and multiple committees and the full board.

Three of the remaining six purposes for which differences exist relate only to committee structures. Utilizing a committee to nominate the independent auditors and to arrange for the independent audit are

two purposes that exhibit differences between single and multiple committees and between joint and multiple committees. A difference in the importance of utilizing a committee as an advisory group for the full board, one of the five most important purposes, was noted between joint and multiple committees.

Differences between board structures were noted on three other purposes: 1) giving attention to the audit function of the independent auditor, 2) strengthening the objectivity and independence of the independent auditor, and 3) evaluating accounting and financial policies, procedures, and personnel. The rating of importance of these purposes is different between multiple committees and the full board; the first two purposes are different between joint committees and the full board; the first purpose is different between single and multiple committees.

The following general observations are made about the differences between board structures concerning the importance of FA/IC purposes. First, little difference was found to exist between single and joint committees. Second, differences were found to exist between committee structures for 12 purposes, eight of which were between joint and multiple committees. Finally, differences were found between committee structures and the full board on 11 purposes, only one of which was between single committees and the full board.

Frequency of FA/IC Functions

Three aspects of functions are discussed: the frequency with which functions are undertaken, their perceived importance, and how effectively those functions addressed are undertaken. Appendix Tables C.5 through C.8 contain the full data sets for all board structures.

Table 5.7 reveals that all hospital FA/IC board structures identified reviewing the budget and comparing it to actual as their first or second most frequently pursued function. The issue of cost containment transcends all hospitals' FA/IC board structures. The literature stresses the importance of timely examination of hospital costs (18, 29); this fact has not escaped respondents as judged by the frequency with which this function is addressed.

Related to the work of the independent auditor, consensus exists among FA/IC committee structures regarding discussing the meaning and significance of audited figures and notes thereto. This function ranks first among all committee structures in terms of the frequency of pursuit. Frequencies range between 94 percent and 98 percent; however, only 75 percent of full board structures pursue this function. Only multiple committees' structures include discussing problems and experiences in completing the audit among their five most frequent functions; this is pursued by 97 percent of such committees. Single and joint committee structures pursue this function in 82 percent and 87 percent of their respective cases, while full board structures pursue it in only 62 percent of the cases. Committee structures generally are more inclined to address FA/IC functions related to the work of the independent auditor than is the full board.

Trustees' concern for the effectiveness of the hospital's system and controls spans across three functions: internal controls, use and control of electronic data, and procedures to prevent kickbacks and conflicts of interest. Table 5.7 indicates a rather sporadic acknowledgement of pursuit by committee structures. Although only single committees

TABLE 5.7

A COMPARATIVE SUMMARY BY HOSPITAL BOARD STRUCTURE OF THE FIVE MOST FREQUENTLY IDENTIFIED FA/IC FUNCTIONS UNDERTAKEN

Most Frequently Identified FA/IC Functions Undertaken	Hospital Committee Structures											
	Single (n = 51)			Joint (n = 125)			Multiple (n = 62)			Full Board (n = 24)		
	n	%	Rank	n	%	Rank	n	%	Rank	n	%	Rank
A. Related to work of independent auditors:												
2. Discuss problems and experience in completing audit.....							60	96.774	2			
3. Discuss meaning and significance of audited figures and notes thereto...	48	94.118	1	123	98.400	1	61	98.387	1			
C. Related to hospital's system and controls:												
1. Discuss effectiveness of internal control.....	44	86.275	3									
2. Discuss effectiveness of use and control of electronic data.....	44	86.275	3				59	95.161	3			
3. Discuss effectiveness of procedures to prevent kickbacks and conflicts of interest.....							59	95.161	3			
D. Related to hospital's personnel:												
1. Discuss adequacy of accounting and financial staff.....				113	90.400	3	61	98.387	1	21	87.500	2
F. Related to other matters:												
2. Review hospital's insurance program.	44	86.275	3	112	89.600	4						
3. Approve or nominate independent auditors.....							59	95.161	3	20	83.333	3
6. Approve signatures for bank accounts and borrowing.....				114	91.200	2				22	91.167	1
7. Review budgets and comparisons of budgets to actual results.....	46	90.196	2	123	98.400	1	60	96.774	2	22	91.167	1
8. Discuss hospital efforts to comply with legal and social obligations to employees, community, and others.										20	83.333	3

are presented in the table, joint and multiple committees pursue internal controls in 89 percent and 94 percent of their cases respectively, while full boards pursue this function in 66 percent of the cases. The use and control of electronic data is among the five most frequently addressed functions for single (86 percent) and multiple (95 percent) committees, but it is pursued by 86 percent of joint committees and 75 percent of full boards. Only multiple committee structures identify pursuit of procedures to prevent kickbacks and conflict of interest among the five most frequently pursued functions, with 95 percent of such committees engaging in the function. Single and joint committees pursue this function in 80 percent and 85 percent of the respective cases, while full boards pursue it in 71 percent of the cases.

The previous paragraphs indicate that Table 5.7 somewhat masks the general consensus that exists among committee structures in comparison to the full board concerning the work of the independent auditor and the hospitals' system and controls. The importance of these two broad categories is revealed in the name of the committee structure, namely, financial accounting and internal control (FA/IC) committee structure. Committees pursue all independent auditor and system/control related functions with frequencies ranging between 80 percent and 98 percent. Full boards pursue these same functions with frequencies ranging between 58 percent and 75 percent. Any committee, as an organizational form and functional body, has as the prime reason for its creation the ability to devote time to issues judged to be important by a supra body (34, 107, 142). Where constraints on time become apparent, further division of tasks among committees can be made. The purpose of

having a committee seems to have borne itself out in that the evidence here shows more functions undertaken when FA/IC committee structures exist than when the full board is left to pursue these issues.

Along the same line, the table also reveals a difference that exists among committee structures concerning the frequency of functions undertaken. More multiple committee structures pursue more functions than do either joint or single committee structures. This seems reasonable given that more committees, properly structured, can address more issues.

Discussion of the adequacy of accounting and financial staff is among the five most frequently pursued functions by joint and multiple committees and the full board. Single committees undertake this function in 84 percent of their cases. All board structures appear to recognize the importance of an accounting staff to the process of generating reliable financial statements. Quality of personnel is one of the often cited qualitative characteristics of a reliable internal control system (12).

Other functions most frequently undertaken include reviewing the hospital's insurance program, approval or nomination of the independent auditor, approval of signatures for bank accounts and borrowing, and discussion of efforts to comply with legal and social obligations. The frequency with which these functions are pursued can be traced to the industry's exogenous environment and the hospital's and board's indigenous environment. Rising malpractice insurance premiums and increased emphasis upon quality assurance programs make it incumbent upon hospitals to review their risk management programs and be responsive to the

social needs of the community of which they are a part. Approval of signatures for bank accounts and borrowing is tied to the most liquid of all assets, cash, and therefore requires very tight controls. In addition, as equity financing is unavailable to the organizations in question, closer control of all characteristics of debt financing is particularly important. Approval or nomination of the independent auditor is a frequently pursued function by all board structures and ranks among the top five of multiple committees and full boards.

The following general observations are made about Table 5.8, which contains the five least frequently pursued FA/IC functions. First, all board structures identified as their least frequently pursued functions those functions related to the internal audit staff. Second, three distinct groups are identifiable when between group comparisons are made. For example, approximately half of multiple committees' structures pursue internal auditor related functions, while nearly 35 percent of single and joint committees address these same functions. Full boards undertake these functions in approximately 25 percent of the cases.

Surprisingly, discussion of the adequacy of the internal audit staff was among the five least frequently pursued functions. Alternatively, discussion of the adequacy of the accounting and finance staff was among the five most frequently undertaken functions. Given the complexity of the hospital financial accounting and reporting system (4, 10, 60, 68, 71), the publicized existence of financial fraud and abuse in the environment (38, 43, 44), and the call for a strengthened internal control system and audit function (15), it seems unreasonable that such small percentages from all board structures would discuss the

TABLE 5.8

A COMPARATIVE SUMMARY BY HOSPITAL BOARD STRUCTURE OF THE FIVE LEAST FREQUENTLY IDENTIFIED FA/IC FUNCTIONS UNDERTAKEN

Least Frequently Identified FA/IC Functions Undertaken	Hospital Committee Structures											
	Single (n = 51)			Scope (n = 125)			Multiple (n = 62)			Full Board (n = 24)		
	n	%	Rank	n	%	Rank	n	%	Rank	n	%	Rank
B. Related to work of internal auditors:												
1. Discuss organization and independence	17	33.333	1	44	35.200	4	32	51.613	1	7	29.167	2
2. Discuss goals and plans, including nature and extent of work	17	33.333	1	43	34.400	3	32	51.613	1	6	25.000	1
3. Discuss problems and experience in completing audits	17	33.333	1	41	32.800	1	32	51.613	1	6	25.000	1
4. Discuss findings and recommendations	20	39.216	3	42	33.600	2	32	51.613	1	6	25.000	1
D. Related to hospital's personnel:												
2. Discuss adequacy of internal audit staff	19	37.255	2	44	35.200	4	37	59.677	2	7	29.167	2

adequacy of the internal audit staff. On the other hand, it is one of the two most often discussed internal auditor related functions. Very little recognition is given either the tasks performed by internal auditors or discussions of the adequacy of the staff.

Importance of FA/IC Functions

A comparison of Table 5.7, page 157, and Table 5.9 shows that those functions most frequently pursued would also be those perceived to be among the most important. In fact, Table 5.9, a comparative summary by type of board structure of the five most important functions undertaken, reveals substantial agreement not only as to which functions are important but even the order of their importance.

A consensus exists among all structures that reviewing budgets and comparing them to actual results, along with discussing the meaning and significance of audited figures and notes thereto, are the first and second most important functions, respectively. As stated earlier, the emphasis on the budgetary process is understandable given the environment of spiraling costs in which hospitals are forced to operate. Cost containment is one of the most often quoted phrases when the subject of hospitals is brought up.

Approval or nomination of independent auditors is the third and last function common to all board structures among their five most important functions. It is the second function associated with the independent auditors. Yet, neither of these functions guarantees personal contact with the independent auditor. As seen from the importance of FA/IC purposes, providing a direct and more personal contact between trustees and the financial officer of the hospital was viewed as more

TABLE 5.9

A COMPARATIVE SUMMARY BY HOSPITAL BOARD STRUCTURE OF THE FIVE MOST IMPORTANT FA/IC FUNCTIONS UNDERTAKEN

Most Important FA/IC Functions Assigned	Hospital Committee Structures							
	Single (n = 51)		Score (n = 125)		Multiple (n = 62)		Full Board (n = 24)	
	Median Score	Rank	Median Score	Rank	Median Score	Rank	Median Score	Rank
A. Related to work of independent auditors:								
2. Discuss problems and experience in completing audit.....					3.571	5		
3. Discuss meaning and significance of audited figures and notes thereto..	4.059	2	4.231	2	4.389	2	3.929	2
C. Related to hospital's system and controls:								
1. Discuss effectiveness of internal control.....	3.385	4			3.680	4		
F. Related to other matters:								
3. Approve or nominate independent auditors.....	3.313	5	3.625	5	3.864	3	3.000	5
6. Approve signatures for bank accounts and borrowing.....	3.550	3	3.904	3			3.167	4
7. Review budgets and comparisons of budgets to actual results.....	4.650	1	4.719	1	4.705	1	4.500	1
8. Discuss hospital efforts to comply with legal and social obligations to employees, community, and others			3.69	4			3.500	3

important. Along this line, only multiple committee structures saw discussion of problems and experiences in completing the independent auditor's examination as a function of any consequence, giving it a median importance rating of 3.6. The other structures view such a discussion with considerably less enthusiasm; median ratings varied between 2.2 and 1.1, with the full board giving the lowest rating.

Single and joint committees and the full board view approval of signatures for bank accounts and borrowing as being one of the five most important functions; however, multiple committees view this function as moderately important, giving it a median rating of 3.3. Discussion of compliance with legal and social obligations is among the most important functions to joint committees and the full board. Single and multiple committees rate this function among their top ten with median scores of importance of 3.0 and 3.4, respectively. The rationale behind the emphasis placed upon these functions was explained earlier under importance of purposes.

Discussing the effectiveness of internal controls is among the top five functions of single and multiple committees. Joint committees rank this among their top ten functions with a median score of importance of 3.1. The median scores of importance for committees range between 3.7 and 3.1. Full boards rate this function 1.5. It would appear that discussing the effectiveness of internal controls should be of more than low to moderate importance to the full board and its committees.

Table 5.10 contains the five FA/IC functions of least importance to hospital board structures that address such issues. A few observations are made about the functions. With only one exception, all

TABLE 5.10

A COMPARATIVE SUMMARY BY HOSPITAL BOARD STRUCTURE OF THE FIVE LEAST IMPORTANT FA/IC FUNCTIONS UNDERTAKEN

Least Important FA/IC Functions Assigned	Hospital Committee Structures: Single (n = 51) Median Score	Single Rank	Joint (n = 125) Median Score	Joint Rank	Multiple (n = 62) Median Score	Multiple Rank	Full Board (n = 24) Median Score	Full Board Rank
B. Related to work of internal auditors:								
1. Discuss organization and independence	.250	1	.272	4	.750	3	.206	2
2. Discuss goals and plans, including nature and extent of work	.250	1	.262	3	.667	1	.167	1
3. Discuss problems and experience in completing audits	.250	1	.244	1	.700	2	.167	1
4. Discuss findings and recommendations.	.250	3	.253	2	.750	3	.167	1
D. Related to hospital's personnel:								
2. Discuss adequacy of internal audit staff	.297	2	.272	4			.206	2
E. Related to hospital's external reporting:								
5. Review status of tax returns					.952	4		

functions relate to the internal auditor and even that exception is followed by the only remaining internal audit function. The range of median scores of importance overlaps only slightly and, therefore, it is possible to rank each of the board structures in terms of importance. Multiple committees seem more concerned about functions related to the internal auditor than do either single or joint committees. Both of the latter committee structures feel approximately the same about these functions. The full board ranks last among FA/IC board structures on the importance of these functions.

Application of the Kruskal-Wallis test to the importance rating given each function reveals differences between board structures in the ratings of 11 functions. Each of these 11 differences was investigated further using the Mann-Whitney U Test to determine which pair(s) of board structures were the source of the overall differences. Tables 5.11 and 5.12 contain the FA/IC functions to be discussed. Significance levels used are similar to those employed in analyzing the importance of FA/IC purposes.

Four of the 11 functions on which difference in the rating of importance was found were among the five least important functions; they all relate to the internal audit function. Differences were found between joint and multiple committees on the functions of discussing the organization and independence of the internal auditors, their work goals and plans, the adequacy of their staff, and problems and experiences in completing their audits. Differences between multiple committees and full boards were found on the first three functions mentioned above. In

TABLE 5.11

KRUSKAL-WALLIS TEST APPLIED TO THE IMPORTANCE OF FA/IC FUNCTIONS ASSIGNED

Possible FA/IC Functions Assigned	Mean Rank of Importance to Hospital Committee Structures				Kruskal-Wallis Test Statistic	Significance Level
	Single	Joint	Multiple	Full Board		
A. Related to work of independent auditors						
1. Discuss scope and timing of audit work	129.12	121.68	166.86	96.35	21.757	.000
2. Discuss problems and experience in completing audit	122.33	121.36	173.22	96.04	27.958	.000
B. Related to work of internal auditors						
1. Discuss organization and independence	126.28	123.62	157.15	117.38	12.536	.006
2. Discuss goals and plans, including nature and extent of work	129.74	123.74	155.52	113.58	11.853	.008
3. Discuss problems and experience in completing audits	130.87	122.97	155.29	115.81	11.745	.008
C. Related to hospital's system and controls						
1. Discuss effectiveness of internal control	139.21	124.36	152.77	97.38	11.864	.008
D. Related to hospital's personnel						
1. Discuss adequacy of accounting and financial staff	129.56	126.65	154.31	101.96	10.242	.017
2. Discuss adequacy of internal audit staff	128.98	120.91	161.21	115.27	16.647	.001
E. Related to hospital's external reporting						
3. Review accounting principles and practices	133.44	131.68	152.91	71.10	20.968	.000
F. Related to other matters						
1. Discuss fraud situations or fidelity bond losses	140.13	129.10	143.20	95.42	7.981	.046
4. Recommend or approve compensation for independent auditors	125.82	128.20	153.85	103.00	9.625	.022

TABLE 5.12

MANN-WHITNEY U TEST APPLIED TO THE IMPORTANCE OF FA/IC FUNCTIONS UNDERTAKEN: CONTRASTS OF BOARD STRUCTURES WHERE A COMPOSITE DIFFERENCE BETWEEN GROUPS WAS SIGNIFICANT

Possible FA/IC Functions Assigned	Board Structures Compared[a]		Mean Ranks[b]		Mann-Whitney U Test Statistic	Two-Tailed Probability
A. Related to work of independent auditors:						
1. Discuss scope and timing of audit work	1	3	48.81	63.73	1163.5	.014
	2	3	82.66	116.85	2458.0	.000
	3	4	49.27	28.58	386.0	.000
2. Discuss problems and experience in completing audit.	1	3	45.11	66.78	974.5	.000
	2	3	81.28	119.65	2284.5	.000
	3	4	49.78	27.27	354.5	.000
B. Related to work of internal auditors:						
1. Discuss organization and independence.	2	3	85.87	110.40	2858.5	.001
	3	4	47.08	34.25	522.0	.019

TABLE 5.12 (Continued)

Possible FA/IC Functions Assigned	Board Structures Compared[a]		Mean Ranks[b]		Mann-Whitney U Test Statistic	Two-Tailed Probability
2. Discuss goals and plans, including nature and extent of work	2	3	86.30	109.53	2912.0	.002
	3	4	47.23	33.85	512.5	.014
3. Discuss problems and experience in completing audits.	2	3	86.09	109.95	2886.0	.001
C. Related to hospital's system and controls:						
1. Discuss effectiveness of internal control	2	4	87.00	108.12	2999.5	.010
	3	4	48.23	31.29	451.0	.004
D. Related to hospital's personnel:						
1. Discuss adequacy of accounting and financial staff.	2	3	87.26	107.60	3032.0	.013
	3	4	48.29	31.13	447.0	.003
2. Discuss adequacy of internal audit staff.	1	3	49.67	63.03	1207.0	.020
	2	3	84.32	113.51	2665.5	.000
	3	4	47.67	32.73	485.5	.008

TABLE 5.12 (Continued)

Possible FA/IC Functions Assigned	Board Structures Compared[a]		Mean Ranks[b]		Mann-Whitney U Test Statistic	Two-Tailed Probability
E. Related to hospital's external reporting						
3. Review accounting principles and practices	1	4	43.38	26.56	337.5	.001
	2	4	80.76	45.02	780.5	.000
	3	4	50.85	24.52	288.5	.000
F. Related to other matters						
1. Discuss fraud situations or fidelity bond losses	1	4	42.10	29.29	403.0	.015
	3	4	48.00	31.88	465.0	.006
4. Recommend or approve compensation for independent auditors	3	4	48.02	31.83	464.0	.006

addition, a difference was found between single and multiple committees on the function of discussing the adequacy of the internal audit staff.

Two functions in Table 5.11, discussing problems and experiences in completing the independent audit and discussing the effectiveness of the hospital's system of internal control, were among the five most important functions previously discussed. A common source of the overall differences in the ratings of importance for these functions exists between multiple committees and the full board. Differences on the former function, related to the independent audit, were also found to exist between single and multiple, as well as joint and multiple committees. A difference on the latter function, discussing the effectiveness of internal control, was also found between joint committees and the full board.

The remaining functions on which differences in the ratings of importance were found are spread across a wide range of issues. Common to all these functions is the difference between multiple committees and the full board. The importance assigned to discussing the scope and timing of the independent auditor's work and the adequacy of the accounting and financial staff are also different between single and multiple, and joint and multiple committees. Each committee structure differs from the full board on reviewing accounting principles and practices. Clearly, the full board views this as an unimportant FA/IC function. Discussing fraud situations or fidelity bond losses is different between single committees and the full board, as well as between multiple committees and the full board; differences related to compensation of the

external auditors exist only between multiple committees and the full board.

Several general observations can be made about differences found between FA/IC board structures and the ratings of the importance of FA/IC functions. Recall from the previous discussion that all 11 functions found to have an overall between group difference also contained a difference between multiple committees and the full board. No differences were noted between single and joint committees. Of the 24 pairs of differences appearing in Table 5.12, ten (42 percent) related to differences found between multiple committees and the full board. Seven pairs (29 percent) of differences exist between joint and multiple committees and apply to all functions within three areas of Table 5.11, page 167: those related to the work of independent auditors, those related to the work of internal auditors, and those related to hospital personnel. When differences are dichotomized along committee-full board lines, 14 (58 percent) of the 24 pairs of differences exist between committees and the full board.

Effectiveness of FA/IC Functions

Substantial overlap exists between the five most effectively pursued functions appearing in Table 5.13 and those functions judged to be important (Table 5.9, page 163). A similar statement can be made about the five least effective and five least important functions, Table 5.14 and Table 5.10, page 165, respectively. Those interested in perusing the ratings of effectiveness for all functions by board structures can refer to Appendix Tables C.9 through C.12. Each respondent used his or her own criteria in evaluating effectiveness of performance.

TABLE 5.13

A COMPARATIVE SUMMARY BY HOSPITAL BOARD STRUCTURE OF THE FIVE MOST EFFECTIVELY PURSUED FA/IC FUNCTIONS

Least Effectively Pursued FA/IC Functions	Hospital Committee Structures							
	Single (n = 51)		Joint (n = 125)		Multiple (n = 62)		Full Board (n = 24)	
	Median Score	Rank	Median Score	Rank	Median Score	Rank	Median Score	Rank
A. Related to work of independent auditors:								
2. Discuss problems and experience in completing audit.....					3.767	5		
3. Discuss meaning and significance of audited figures and notes thereto...	3.900	4	4.029	4	4.094	4		
B. Related to work of internal auditors:								
4. Discuss findings and recommendations	4.125	2					4.000	1
C. Related to hospital's system and controls:								
1. Discuss effectiveness of internal control.....							3.700	4
E. Related to hospital's external reporting:								
2. Discuss effectiveness of use and control of electronic data.....	3.750	5						
F. Related to other matters:								
3. Approve or nominate independent auditors.....	3.750	5	4.040	3	4.278	3	3.929	2
6. Approve signatures for bank accounts and borrowing.....	4.100	3	4.500	2	4.519	2		
7. Review budgets and comparisons of budgets to actual results.....	4.630	1	4.671	1	4.643	1	4.000	1
8. Discuss hospital efforts to comply with legal and social obligations to employees, community, and others.			3.875	5			3.900	3

TABLE 5.14

A COMPARATIVE SUMMARY BY HOSPITAL BOARD STRUCTURE OF THE FIVE LEAST EFFECTIVELY PURSUED FA/IC FUNCTIONS

Least Effectively Pursued FA/IC Functions	Hospital Committee Structures							
	Single (n = 51)		Joint (n = 125)		Multiple (n = 62)		Full Board (n = 24)	
	Median Score	Rank	Median Score	Rank	Median Score	Rank	Median Score	Rank
B. Related to work of internal auditors:								
1. Discuss organization and independence			2.000	5				
2. Discuss goals and plans, including nature and extent of work							1.500	3
3. Discuss problems and experience in completing audits							1.500	3
D. Related to hospital's personnel:								
2. Discuss adequacy of internal audit			1.750	4				
E. Related to hospital's external reporting:								
1. Review reports before submission to regulatory bodies (HCFA or their representative including fiscal intermediary)	1.556	3	1.489	2	1.464	2		
3. Review accounting principles and practices	2.500	5					1.429	2
4. Review efforts to disclose social costs and obligations	2.500	5			2.583	5	1.500	3
5. Review status of tax returns	1.344	2	1.292	1	1.315	1	1.250	1
F. Related to other matters:								
1. Discuss fraud situations or fidelity bond losses	2.292	4			2.375	4		
5. Review and approve selected officers' expenses	1.283	1	1.731	3	1.550	3		

In addition, only ratings of respondents who acknowledged pursuing a function by rating importance and who also rated effectiveness were included in the generation of the statistics.

Two functions in Table 5.13, approving the independent auditors and reviewing budgets and comparing them to actual, are among the five most important and effectively pursued functions for all FA/IC board structures. Given the emphasis placed on the latter function in the cost-conscious hospital setting, encouragement is gained from seeing that all FA/IC board structures are viewed as effectively reviewing budgets and monitoring actual results. Approval or nomination of the independent auditor, as important and effectively pursued as the function is, appears to be one of the few opportunities taken to talk with or about the independent auditor.

Two functions, in addition to those discussed above, were among the five most effectively pursued by all FA/IC committee structures: discussing the meaning and significance of audited statements and approval of signatures for bank accounts and borrowing. Both of these functions were seen by respondents as among the most important. Given the low importance assigned to the FA/IC purpose of providing a personal contact on a regular basis with the independent auditor, one may assume that respondents feel trustees can discuss the meaning and significance of audited figures without much assistance from the external auditor. Interestingly, respondents of full board structures placed discussion of the financial statements among their least effectively pursued functions.

Discussion of problems and experiences in completing the audit was among the five most important and effectively pursued functions of

multiple committees. Single and joint committee structures viewed this among their least important and effectively pursued functions. Full boards, on the other hand, rated it low in importance, but high in terms of being effectively pursued. This can probably be explained by the fact that not many full boards have this as a function but those that perform the function do it well. A similar reason can be given for the effectiveness rating received by the discussion of the findings and recommendations of the internal auditors. This is an unimportant function to the respondents within each board's structures, taken as a whole, but one that appears effectively undertaken by those single committees and full boards that pursue it. Joint and multiple committees rate the effectiveness with which internal auditor reports are discussed, with median scores of 3.7 and 3.1 respectively. Again, the same explanation offered in the middle of the paragraph applies equally here.

Discussing the effectiveness of internal controls, part of the greater examination of the hospital's system and controls, was rated by full boards as one of their five most effectively pursued functions; committee board structures rank this among their top ten most effectively pursued functions, median score of effectiveness ranging between 3.3 and 3.6. All committee structures consider this function of moderate importance with median scores of importance ranging between 3.0 and 3.7; full boards assign a median score of importance to this function of 1.5, rather low. Many committee structures undertake this function, and respondents from these structures feel it is effectively pursued. Full boards, on the other hand, infrequently pursue this function; but those that do undertake it do so effectively.

Discussing the effective use and control of electronic data, related to external reporting, was not among the five most important functions of any FA/IC board structure; only single committees ranked this among the five most effectively pursued functions. The median rank of effectiveness for all board structures except one, multiple committees, exceeded the median rank of importance. Discussing compliance with legal and social obligations was among the five most important and effectively pursued functions of joint committees and the full board with the median range of scores between 3.0 and 3.9 for both importance and effectiveness. Again, effectiveness ratings exceed importance ratings, but only by a small margin.

Three of the functions judged to be performed least effectively are associated with the work of the internal auditor. Recall that almost all of the functions evaluated as least important were also those associated with the internal auditor. Following the trend cited in previous paragraphs, the effectiveness rating exceeds the importance rating in all cases by a substantial margin. The median range of effectiveness scores not reported in Table 5.14 for internal auditor functions, which include discussing independence, goals and plans, problems in completing audits, and adequacy of personnel was between 2.5 and 3.5. The median effectiveness scores for full board structures on discussing goals and plans of the internal auditor, as well as on discussing experiences in completing internal audits, were substantially less than the median effectiveness scores for any FA/IC committee structure.

Respondents representing all FA/IC board structures agree that reviewing the status of the tax returns is among the five least

effectively pursued functions. Reviewing tax returns is also among the least important functions. Reviewing reports submitted to regulatory bodies and reviewing and approving selected officers' expenses are among the least effectively pursued functions by all committee structures. Full board respondents ranked these functions among those ten least important and effectively undertaken. This writer believes that benefit to the hospital could be derived from having the trustees review the cost report submitted to the Medicare-Medicaid fiscal intermediary with that organization's auditing representative. Having experience with many hospitals, the fiscal intermediary auditor is in a position to, at a minimum, explain the cost report and review areas that he or she views as potential areas for improving operating efficiency. Understandably, respondents would view the examination and approval of selected officers' expenses as unimportant since they have a vested interest in the function. However, it seems unreasonable that trustees do the task ineffectively.

Reviewing accounting principles and practices and reviewing efforts to disclose social costs, although identified in Table 5.14, page 174, by only two and three board structures respectively, are among the ten least important and effectively undertaken functions by all board structures. It seems unreasonable that, on one hand, respondents rate as important trustees discussing the meaning and significance of audited figures and notes thereto, and that they feel trustees do this well (at least in the case of committee structures) and, on the other hand, that respondents rate as unimportant trustees reviewing accounting principles and practices. Respondents feel trustees pursue this task ineffectively.

The reader should keep in mind that respondents view trustees maintaining a personal and regular contact with themselves, the hospital financial officer, as significantly more important than that contact maintained with the independent auditor.

The literature points out the problems that hospitals are having with fraud and abuse (38, 43). Given this, it appears unreasonable that respondents would view trustees' discussion of fraud situations or fidelity bond losses as unimportant. Discussion of fraud situations ranks among the ten least important functions of all FA/IC board structures. Alarmingly, respondents from all committee structures view the discussion of fraud situations among their ten least effectively pursued functions, with single and multiple committees placing this among the five least effectively undertaken functions. Full boards view the function among the top ten effectively undertaken functions with a median score of 3.2.

Tables 5.15 and 5.16 show the overall and specific differences found to exist among and between the effectiveness ratings for the FA/IC board structures. Only three overall differences were found to exist. Median effectiveness ratings of 3.5 were given to the discussion of the scope and timing of the independent audit by multiple committees and the full board while single and joint committees had median ratings of 2.8 and 2.5 respectively. Table 5.16 points out the main source of differences, namely, joint and multiple committees. An overall difference in the effectiveness rating was found for discussing problems and experiences in completing the independent audit; respondents from multiple committees rated this function among those most effectively pursued

TABLE 5.15

KRUSKAL-WALLIS TEST APPLIED TO THE EFFECTIVENESS OF FA/IC FUNCTIONS UNDERTAKEN

Possible FA/IC Functions Assigned	Mean Rank of Effectiveness to Hospital Committee Structures				Kruskal-Wallis Test Statistic	Significance Level
	Single	Joint	Multiple	Full Board		
A. Related to work of independent auditors						
1. Discuss scope and timing of audit work	104.94	94.63	124.44	115.18	9.440	.024
2. Discuss problems and experience in completing audit	103.85	102.86	133.24	108.50	9.791	.020
B. Related to work of internal auditors						
1. Discuss organization and independence	55.40	40.81	58.53	42.00	9.142	.027

TABLE 5.16

MANN-WHITNEY U TEST APPLIED TO THE EFFECTIVENESS OF FA/IC FUNCTIONS UNDERTAKEN: CONTRASTS OF BOARD STRUCTURES WHERE A COMPOSITE DIFFERENCE BETWEEN GROUPS WAS SIGNIFICANT

Possible FA/IC Functions Assigned	Board Structures Compared[a]		Mean Ranks[b]		Mann-Whitney U Test Statistic	Two-Tailed Probability
A. Related to work of independent auditors						
1. Discuss scope and timing of audit work	2	3	70.88	93.25	2037.5	.002
2. Discuss problems and experience in completing audit	1	3	43.01	56.69	903.5	.017
	2	3	74.96	97.44	2275.0	.003
B. Related to work of internal auditors						
1. Discuss organization and independence	2	3	32.14	45.88	436.0	.005

[a]Board structures consist of a single standing committee (1), joint standing committee (2), multiple standing committee (3), and the full board (4).

[b]The mean on the left corresponds to the first group mentioned and the mean on the right corresponds to the second group mentioned. The effectiveness rating ran from a high of 5 through a low of 1.

while respondents from single and joint committee structures rated the function as one of those least effectively undertaken. A difference was noted between joint and multiple committees on the rating of the discussion of the organization and independence of internal auditors. The range of median scores across the four structures was 2.0 to 3.1; these scores correspond to joint and multiple committees respectively. The tables show very little difference exists between effectiveness rankings of functions across the four FA/IC board structures; what differences there are primarily arose between joint and multiple committee structures.

Board Characteristics

These characteristics include the type of committee structure used to pursue FA/IC issues, the name of the committees employed, the length of time the organizational structure in question was used, and significant changes in the last five years in the composition, responsibilities, or other characteristics describing how FA/IC issues are addressed. This is not to say that items to be addressed in subsequent sections are not related to purposes and functions, rather, only that a subjective determination showed some characteristics to be closer to purposes and functions than others.

Structures used by hospital boards to address FA/IC issues can be summarized as follows: 51 single standing committees (19 percent), 125 joint standing committees (48 percent), 62 multiple standing committees (24 percent), and 24 full boards (9 percent). Of the 262 responses received from hospital chief financial officers, 238 (91 percent) indicated that their board uses a committee structure to address these issues.

Table 5.17 provides, for both single or joint and multiple committees, the frequency with which committee names are used. Committee names appear in descending order of frequency. Scanning the table one can see that substantial use is made of the terms finance and audit. Three-quarters of single or joint committees use the name finance committee(s), while approximately 60 percent of multiple committees use at least the names finance committee and audit committee. In the aggregate the term finance is employed in 210 (90 percent) cases and the term audit is used in 65 (28 percent) cases.

The number of years each board structure has been employed is reflected in Table 5.18. Frequencies underlying the descriptive and test statistics in the previously mentioned table appear in Appendix Table C.13. FA/IC committee structures have been used an average of between ten and 14 years, while full boards have been used an average of 20 years. The extent of dispersion around the mean is substantial in all cases. Examination of paired contrasts of board structures with t statistics generated using separate variance estimates showed a difference to exist between multiple committees and the full board.

Understandably, full board FA/IC structures would have the longest life, as the life of the board would equal that of the hospital. A spin-off of the full board might result in the establishment of a joint committee, the third oldest structure. As committee duties increase, a single committee would be formed. Finally, when duties become burdensome, then functions are allocated among related committee structures in some rational manner considering such things as the

TABLE 5.17

FREQUENCY OF NAMES GIVEN A SINGLE OR JOINT FA/IC COMMITTEE AND MULTIPLE FA/IC COMMITTEES

Multiple Committees			Single or Joint Committee		
Name	No.	%	Name	No.	%
Finance and Audit	20	32.3	Finance	131	76.2
Finance, Audit, and A[a]	18	29.1	Finance and Audit	10	5.8
Audit and B[b]	11	17.7	Other[d]	10	5.8
Finance and C[c]	11	17.7	Audit	6	3.5
Others	2	3.2	Finance and Investment	5	2.9
Total	62	100.0	Executive	4	2.3
			Finance and Budget	3	1.7
			Finance and Cost Containment	2	1.2
			Budget	1	0.6
			Total	172	100.0

[a] One or more other committees.

[b] One or more committees other than a finance committee.

[c] One or more committees other than an audit committee.

[d] Includes mixed names, part of which almost always included the designation "finance."

TABLE 5.18

THE NUMBER OF YEARS HOSPITAL BOARDS HAVE USED THEIR PRESENT BOARD STRUCTURE TO ADDRESS FA/IC ISSUES

Board Structure	Number of Respondents	Mean Number of Years	Standard Deviation
Single	45	13.6	10.0
Joint	108	12.7	13.0
Multiple	58	10.0	7.2
Full	21	20.1	15.3

Differences found in contrast between board structures:

Board Structure	T-Value	Probability
Multiple/Full Board	-2.907	.008

organizational structure of existing board committees and the goals and objectives of the board.

Respondents generally indicated no change had taken place in the composition, responsibilities, or other characteristics of the hospital FA/IC board structure within the last five years. Negative responses ranged between 67 percent for multiple committee structures and 95 percent for full board structures. Table 5.19 contains the frequencies of responses and reveals that an overall difference exists among the board structures. The primary source of the difference appears to be between the extremes previously mentioned, multiple committees and full boards. Paired analysis of board structures indicates this difference to be significant at the .0133 level.

Surprisingly, many respondents indicated no significant change had taken place in the last five years. The literature is replete with suggestions for changing and thereby improving the structure of organizational governance (34, 45, 46, 85). On the other hand, hospitals, as maintenance organizations, have been judged slow to accommodate the change taking place in the environment around them (76). This seems to be the case with FA/IC functions. Although hospital boards are actively engaged in undertaking a substantial number of FA/IC functions, their more important ones lie in the areas of budgets and examining the audited financial statements. These do not appear to be the more pressing functions brought to the forefront in the last few years. Included in this latter group would be more concern with the internal audit function, examining the accounting principles and practices underlying the financial statements, and meeting the independent auditor and discussing the

TABLE 5.19

CHANGES IN THE COMPOSITION, RESPONSIBILITIES, OR OTHER CHARACTERISTICS OF HOSPITAL FA/IC BOARD STRUCTURES WITHIN THE LAST FIVE YEARS

	Number of Responses							
	Committee Structures							
Type of Response	Single		Joint		Multiple		Full Board	
	n	%	n	%	n	%	n	%
Yes	11	21.6	24	19.5	20	32.8	1	4.2
No	40	78.4	99	80.5	41	67.2	23	95.8
Total	51	100.0	123	100.0	61	100.0	24	100.0

Chi-Square Test Statistic	D.F.	Significance Level
9.125	3	.0277

scope of the audit, as well as problems and experiences in completing the audit.

B. STRUCTURAL PRACTICES AND PROCEDURES

Introduction

Size and composition, term of office, and number of meetings of the full board and FA/IC committee structures are treated separately in this section. The term composition refers to the division between officer trustees and non-officer trustees; the former means individuals who serve their entity as a member of management, while the latter stands for those who are not obvious insiders and, therefore, give the appearance of being independent. Activities and relationships which could possibly impair the independence of board members and thwart their ability to serve as effective FA/IC board structure members are also examined.

Full Board Structures

Six attributes of the full board are examined. These attributes are classified by board structure used to address FA/IC issues. Table 5.20 contains descriptive and test statistics related to the attributes to be discussed. Appendix Tables C.14 through C.16 contain the full data set supporting Table 5.20. The attributes examined include: number of members, number of non-officer trustees, term of office in years, average number of meetings per year, and average duration of meetings in hours. The existence of renewable terms is also discussed; related frequencies are presented in Appendix Table C.17.

The number of members on the full hospital board is larger than one would expect to see in other organizational settings, i.e.,

TABLE 5.20

DESCRIPTIVE AND TEST STATISTICS RELATED TO ATTRIBUTES OF THE FULL HOSPITAL BOARD: CLASSIFIED BY BOARD STRUCTURE USED TO ADDRESS FA/IC ISSUES

			Attribute		Differences Found in Contrasts Between Board Structures*		
Attributes	Board Structure	Number of Respondents	Mean	Standard Deviation	Board Structure	T-Value	Probability
Number of Members	Single	42	21.1	13.6	Joint/Multiple	-3.621	.001
	Joint	113	19.2	9.9	Multiple/Full	3.290	.002
	Multiple	49	26.9	13.7			
	Full	23	13.9	16.6			
Number of Non-Officer Trustees	Single	38	17.9	13.5	Joint/Multiple	-3.692	.000
	Joint	103	16.3	9.2			
	Multiple	47	24.3	13.3			
	Full	18	15.6	19.1			
Term of Office (in years)	Single	41	3.0	1.17			
	Joint	107	2.9	1.36			
	Multiple	45	3.1	1.33			
	Full	17	3.9	2.76			
Average Number of Meetings Per Year:							
Regular	Single	38	9.3	3.9			
	Joint	97	9.2	4.4			
	Multiple	46	10.0	4.0			
	Full	23	10.4	5.4			

TABLE 5.20 (Continued)

Attribute	Board Structure	Number of Respondents	Attribute: Mean	Attribute: Standard Deviation	Differences Found in Contrasts Between Board Structures*: Board Structure	T-Value	Probability
Special	Single	21	1.9	1.3			
	Joint	48	2.3	2.3			
	Multiple	20	2.6	1.7			
	Full	6	8.0	12.0			
Total	Single	38	10.1	4.5			
	Joint	99	10.0	4.7			
	Multiple	46	11.3	5.2			
	Full	20	11.3	6.0			
Average Duration of Meetings (in hours)	Single	37	2.2	1.0			
	Joint	102	2.1	.8			
	Multiple	49	2.0	1.5			
	Full	23	2.1	.7			

*All t values and related probabilities were determined using separate variance estimates as homogeneity of variance did not exist.

for-profit corporations. This statistic is in line with that found in other studies (45, 64). One reason why a board would not be in a position to establish an FA/IC committee structure is because of the small size of the full board. The FA/IC full board structure contains the smallest number of total board members, approximately 14. Yet, this seems a sufficient enough size to support a joint or single committee structure. One might expect the largest board would support a multiple committee structure; this is the case. Application of the test statistic shows differences do exist between joint and multiple committee structures and between multiple committees and the full board.

The number of non-officer trustees as a percentage of total trustees on full boards having FA/IC committee structures ranges between 85 percent and 90 percent. This would imply that between 10 and 15 percent of the board members are operating officers of the hospital. The analysis of contrasts between FA/IC board structures reveals a difference in the number of non-officer trustees between joint and multiple committee structures. Also, a substantial degree of variability of responses exists concerning the total number of members and non-officer members as shown by the standard deviation.

Board members' terms of office, in years, are substantially the same across all FA/IC board structures. Three years seems to be the consensus for boards with committee structures. No difference was found to exist between FA/IC board structures. Appendix Table C.17 contains the frequencies related to the existence of renewable terms. No difference between board structures was found to exist, and at least 83 percent of respondents from all structures indicated that terms are renewable.

This fact, along with the length of terms, supports the contention that boards are self-perpetuating.

No differences were noted in the average number of meetings per year between any FA/IC board structures. The average number of regular, special, and total meetings approximate ten, two, and 11 respectively. Once again, a substantial amount of variability exists in the responses. Note should be taken of the reduced number of FA/IC board structures having special meetings. Only six FA/IC full board structures indicated having special meetings; but on the average, they had eight meetings; substantial variation exists among answers from respondents. The average length of full board meetings in hours for all board structures approximates two hours and no between board structure difference was noted.

FA/IC Committee Structures

FA/IC committee attributes examined parallel those looked at for the full hospital board. Table 5.21 contains descriptive and test statistics on committee attributes; Appendix Tables C.18 and C.19 contain the underlying frequencies. Term of office, one attribute examined, is extended by looking at the existence of renewable terms; frequencies of the latter are presented in Appendix Table C.17.

The number of members on single or joint FA/IC committees is approximately seven, while multiple committees contain about 12 members. Differences exist between the following structural contrasts: single and multiple committees, and joint and multiple committees. The number of members on any of the committee structures does not appear unreasonable in light of commonly recognized size of an efficient committee

TABLE 5.21

DESCRIPTIVE AND TEST STATISTICS RELATED TO ATTRIBUTES OF HOSPITAL BOARD FA/IC COMMITTEE(S) STRUCTURES

			Attribute		Differences Found in Contrasts Between Committee Structures		
Attributes	Committee Structure	Number of Respondents	Mean	Standard Deviation	Board Structure	T-Value	Probability
Number of Members	Single	49	6.4	3.8	Single/Multiple	-6.159	.000
	Joint	111	6.9	2.9	Joint/Multiple	-6.504	.000
	Multiple	53	12.3	5.7			
Number of Non-Officer Trustees	Single	42	5.2	3.7	Single/Multiple	-5.273	.000
	Joint	98	5.7	2.8	Joint/Multiple	-5.493	.000
	Multiple	47	10.0	5.0			
Term of Office (in years)	Single	43	1.9	1.3			
	Joint	100	2.0	1.4			
	Multiple	42	2.1	1.1			
Average Number of Meetings Per Year:							
Regular	Single	45	9.2	7.7	Joint/Multiple	-3.245	.002
	Joint	103	8.7	4.1			
	Multiple	49	11.4	5.1			
Special	Single	31	2.1	1.3	Single/Multiple	-3.107	.003
	Joint	55	2.7	1.6			
	Multiple	31	3.7	2.6			

TABLE 5.21 (Continued)

Attributes	Committee Structure	Number of Respondents	Attribute		Differences Found in Contrasts Between Committee Structures		
			Mean	Standard Deviation	Board Structure	T-Value	Probability
Total	Single	48	9.9	8.3	Joint/Multiple	-3.558	.001
	Joint	111	9.3	4.9			
	Multiple	55	12.4	5.4			
Average Duration of Meetings (in hours)	Single	48	1.6	.6	Single/Multiple*	-2.740	.007
	Joint	112	1.7	.6	Joint/Multiple*	-2.383	.018
	Multiple	56	1.9	.6			

*Where homogeneity of variance exists, t values and probabilities were determined using pooled variance estimates. All other t values were determined using a separate variance estimate.

structure (59, 102). The number of non-officer trustees, on the average, approximates 80 percent of the total number of committee members. This is to say that, on the average, about one member of each committee is an operating officer in the hospital. Differences in structural contrasts are similar to those identified immediately above.

The average term of office of committee members is two years; no between board structure differences were found. When compared to the average term of office of three years for board members, one might assume that two-thirds of a committee member's time as a board member is spent serving on one committee. Appendix Table C.17 contains the frequencies related to the existence of renewable terms. No difference between board structures was found to exist; and at a minimum, 93 percent of respondents indicated that committee terms are renewable. This self-perpetuating characteristic allows for the continuation of individuals versed in the financial affairs of the hospital and minimizes inefficiencies associated with new members learning their duties. On the other hand, the continuation of ineffective members is possible if contributions to the committee by individuals are not monitored. Rotating terms of office would allow individuals with fresh insights to join the committee and learn from their more experienced colleagues.

The average number of regular FA/IC committee meetings ranged from approximately eight to 11, multiple committees having the highest average. The average number of committee meetings approximates those of the full board. Between structure differences were found to exist for joint and multiple committees. Special meetings average about two per year, with differences existing between single and multiple committee

structures. About 60 percent of reporting hospitals indicated having special meetings. Differences in the average number of total committee meetings were found to exist between joint and multiple committee structures. The average length of meetings ranges between 1.5 and 2.0 hours. Differences were noted between multiple committees and both single and joint committees. Hospital FA/IC committees meet quite often and for very reasonable lengths of time. This schedule probably results from residential proximity of board members to the community hospitals which they serve.

Independence of FA/IC Committee Members

Appendix Table C.20 and Table 5.22 represent the antithesis of one of the committee attributes examined earlier, non-officer trustees. Appendix Table C.20 discloses the frequency of the existence of officer trustees on FA/IC committees; Table 5.22 provides the job titles of hospital operating officers who serve on the committee and the capacity in which they serve. To the question, "Are there any members of your committee who are officer trustees?" Appendix Table C.20 contains frequencies showing that approximately half the respondents of each board structure answered yes. No between board structure differences exist. Some respondents had more than one officer trustee on the committee. Table 5.22 lists both the job title of operating officers who serve on the FA/IC committees and the capacity in which they serve. No attempt was made to associate job titles and committee capacity with specific FA/IC committee structures. Operating officers (officer trustees) serving on committees are, for the most part, either at the top of the organizational structure (e.g., president, administrator, chief executive

TABLE 5.22

JOB TITLES OF HOSPITAL OPERATING OFFICERS WHO SERVE ON AN FA/IC COMMITTEE(S) AND THE CAPACITY IN WHICH THEY SERVE THE COMMITTEE

Job Title/Function of Hospital Officers Who Serve on FA/IC Committees			Position of Officer Trustees on FA/IC Committees		
	Frequency			Frequency	
Job Title[a]	No.	%	Committee Position	No.	%
Treasurer	40	25.5	Member	83	58.9
President	39	24.7	Chairman	35	24.8
Vice-President	21	13.4	Ex-Officio Member	12	8.5
Administrator	16	10.2	Secretary	8	5.7
Vice-President (Finance)	15	9.6	Vice-Chairman	3	2.1
Chief Executive Officer	12	7.6	Total	141	100.0
Other[b]	9	5.7			
Controller	3	2.0			
Secretary	2	1.3			
Total	157	100.0			

[a]These job titles overlap in some cases, but they are reported here as recorded by respondents to the questionnaire.

[b]Includes a variety of job titles.

officer) or serve in a high financial capacity (e.g., treasurer, financial vice-president, or controller). Individuals serving in these capacities bring a substantial amount of power to the committee because of the knowledge they possess about the hospital via their operating position. This power can be reinforced by the role they play on the committee. Some have contended that operating officers serving on committees of the type in question lack independence and use their power to protect their positions (34, 84). In approximately 25 percent of the cases, operating officers serve as chairmen; in approximately 90 percent of the reported cases, they serve as voting members. The existence of officer trustees on FA/IC committees in conjunction with the role they play on their committees is one factor that would seem to indicate FA/IC committees are in their initial stage of development.

Independence is a critical issue in discussing the effective functioning of any FA/IC board structure. The literature is replete with calls for the need to retrieve and retain board members who are independent of management and whose relationships with the organization on which they serve as a board member are free of apparently compromising activities (84, 113). Respondents were asked to examine six potentially compromising situations and tell whether a person identified with the situation would be acceptable as chairman, simply a member of an FA/IC committee, or unacceptable as a member. Table 5.23 contains frequencies of responses to the six situations categorized by type of FA/IC board structure of respondents. Application of the Kruskal-Wallis test revealed no difference between respondents from the various FA/IC board structures on any of the six situations.

TABLE 5.23

FREQUENCY TABLE ON THE ACCEPTABILITY OF STATED ACTIVITIES AND RELATIONSHIPS FOR INDIVIDUALS WHO ADDRESS FA/IC ISSUES IN THEIR CAPACITY AS A MEMBER OF A HOSPITAL BOARD OF TRUSTEES

A Member of the Board of Trustees Who Holds	Board Structure	Acceptable as Member and Chairman	Acceptable as Member Only	Unacceptable as Member	No Response
Some of the hospital's bonds and performs no duties other than those of a director.	Single	16	18	14	3
	Joint	47	50	22	6
	Multiple	31	20	10	1
	Full	9	4	8	3
Bonds in the hospital and serves as a consultant to the hospital. The value of his bonds (including interest and principal value) exceeds the value of his fees as a consultant.	Single	2	14	32	3
	Joint	9	19	91	6
	Multiple	5	12	44	1
	Full	1	5	15	3
A substantial amount of bonds in the hospital and serves as one of the chief officers. The value of his bonds (including interest and principal value) exceeds the value of his income as an executive.	Single	2	20	26	3
	Joint	9	36	73	7
	Multiple	8	18	35	1
	Full	0	6	15	3

TABLE 5.23 (Continued)

A Member of the Board of Trustees Who Holds	Board Structure	Acceptable as Member and Chairman	Acceptable as Member Only	Unacceptable as Member	No Response
No bonds in the hospital and who is affiliated with the hospital as a primary insurance or securities underwriter.	Single	4	23	21	3
	Joint	17	41	62	5
	Multiple	10	21	31	1
	Full	2	7	12	3
No bonds in the hospital and who is affiliated with the hospital as a major (exceeding ten percent of his sales or the hospital's purchases) supplier of goods or services.	Single	3	10	35	3
	Joint	5	24	91	5
	Multiple	5	13	44	1
	Full	1	3	17	3
No bonds in the hospital and who is affiliated with the hospital as one of its primary bankers.	Single	17	23	9	2
	Joint	40	55	25	5
	Multiple	25	23	14	1
	Full	7	9	5	3

The first situation, in which a trustee holds some bonds and performs no other duties, was viewed by respondents as the least compromising of the six situations. Almost 80 percent said a person in this position could serve on the committee and half of these said the person could serve as chairperson. The next four situations, where the trustee also serves as consultant, one of the chief operating officers, an insurance/security underwriter, or a major supplier of goods or services, were viewed as unacceptable for FA/IC committee membership by the following respective percentages: 73, 60, 50, and 75 percent. Individuals engaged in the four activities or relationships just mentioned are looked upon by respondents as taking part in situations which compromise their independence and therefore their effectiveness to the committee. Respondents were tolerant of the situation where the trustee is one of the hospital's primary bankers. Approximately 80 percent viewed the situation as not prohibiting the banker from serving as an FA/IC committee member.

C. STRENGTHENING THE TRUSTEE'S ROLE

Introduction

Attention now turns toward the examination of two aspects of strengthening the trustee's role. The factual aspect is looked at first by examining the number of meetings trustees have with individuals, inside and outside the hospital, who might be classified as experts in various phases of financial accounting and internal control (FA/IC) issues. The second aspect is respondents' perceptions of utilizing

individuals from each of five technical specialties to assist trustees in addressing FA/IC issues.

Trustee Meetings With FA/IC Experts

Chief financial officers were asked to identify the number of meetings between trustees and FA/IC experts. Eight experts were identified, five internal to the hospital's operations and three outside the hospital. Table 5.24 contains the average numbers of annual meetings between trustees and experts and identifies differences between FA/IC board structures as to the number of meetings. Appendix Tables C.21 through C.24 contain the full data set.

Internal experts are examined first. Chief executive officers, also referred to as the administrator, president, or director, meet with the FA/IC board structure between ten and 12 times a year. Chief financial officers meet between nine and 12 times a year with trustees who address FA/IC issues. These two operating officers meet, at a minimum, three times more often with trustees than do any other group of specialists. Chief accountants meet with trustees between one and four times a year. Differences exist between multiple committees and the full board as to the number of meetings for each of the latter two groups of experts.

Internal auditors and hospital attorneys, as internal specialists, average the fewest number of meetings per year with trustees who pursue FA/IC issues. On the average, only multiple committees meet more than once a year with these individuals. Differences exist between full boards and both joint and multiple committees as to the number of

TABLE 5.24

DESCRIPTIVE AND TEST STATISTICS RELATED TO THE NUMBER OF MEETINGS BETWEEN FA/IC HOSPITAL BOARD STRUCTURES AND INDIVIDUALS CONSULTED

			Number of Meetings		Differences Found in Contrasts Between Board Structures		
Job Title	Board Structure	Number of Respondents	Mean	Standard Deviation	Board Structure	T-Value	Probability
Administrator/ President/Director	Single	51	12.0	9.9			
	Joint	125	11.6	7.6			
	Multiple	62	14.0	8.3			
	Full	24	10.0	6.3			
Financial Vice-President (CFO)	Single	51	11.3	8.6	Multiple/Full*	2.984	.003
	Joint	125	11.9	7.4			
	Multiple	62	13.9	6.8			
	Full	24	8.5	6.3			
Chief Accountant/ Director of Accounting	Single	51	3.8	8.3	Multiple/Full	2.867	.005
	Joint	125	2.8	4.8			
	Multiple	62	4.1	6.1			
	Full	24	1.2	3.4			
Internal Auditor	Single	51	.6	2.0	Joint/Full	2.357	.020
	Joint	125	.7	2.6	Multiple/Full	3.769	.000
	Multiple	62	1.8	3.6			
	Full	24	.1	.4			

TABLE 5.24 (Continued)

Job Title	Board Structure	Number of Respondents	Number of Meetings		Differences Found in Contrasts Between Board Structures		
			Mean	Standard Deviation	Board Structure	T-Value	Probability
Independent External Auditor (CPA)	Single	51	1.5	1.4	Single/Multiple	-2.452	.016
	Joint	125	1.5	1.0	Single/Full	3.290	.002
	Multiple	62	2.2	1.3	Joint/Multiple	3.821	.000
	Full	24	.8	.7	Joint/Full	4.029	.000
					Multiple/Full	6.398	.000
Auditing Representative for Fiscal Intermediary Medicare-Medicaid	Single	51	.18	.56			
	Joint	125	.09	.31			
	Multiple	62	.15	.57			
	Full	24	.30	.91			
Hospital Attorney:							
Internal	Single	51	.35	1.70			
	Joint	125	.36	1.67			
	Multiple	62	1.29	4.72			
	Full	24	.50	2.45			
External	Single	51	2.6	6.3	Joint/Full	2.473	.016
	Joint	125	3.0	5.0	Multiple/Full	2.718	.008
	Multiple	62	3.6	5.4			
	Full	24	1.3	2.6			

*Where homogeneity of variance exists, t values and probabilities were determined using pooled variance estimates. All other t-values were determined using a separate variance estimate.

meetings with internal auditors. No between board structure differences exist as to the number of meetings with internal attorneys.

External experts include the independent CPA, fiscal intermediary auditor, and the external attorney. The external attorney meets more frequently with their FA/IC board structure than do either the CPA or fiscal intermediary auditor; average meetings per year for attorneys range between one and four. Differences in the number of meetings exist between the full board and both joint and multiple committees. Independent auditors (CPA's) meet, on the average, between once and twice a year with FA/IC board structures. Between board structure differences exist on all contrasts except the comparison of single and joint committees. Fiscal intermediaries meet the least number of times with trustees who address FA/IC issues. On the average, such meetings take place substantially less than once a year; no differences were found in board structure contrasts.

Internal FA/IC experts meet significantly more often with trustees than do similar external experts. Interestingly, the more powerful and apparently less independent insiders meet more often with trustees. External FA/IC experts, such as the CPA and fiscal intermediary auditor, not only offer a more objective viewpoint, but also offer a breadth of experience gathered while working with a number of other hospitals. These same external experts have among the fewest number of meetings with trustees and therefore have less opportunity to provide first-hand assistance in educating and counseling trustees. Across all specialists, differences as to the average number of meetings with

experts exist primarily between multiple committees and the full board, but also between joint committees and the full board.

Utilizing an Autonomous Staff of Experts

Chief financial officers were asked to evaluate the worth of five groups of technical specialists in terms of the ability of each to act in the capacity of an autonomous staff to assist trustees in addressing FA/IC issues. A five-point evaluation scale was used, ranging from worthy of whole-hearted support through should be actively opposed. Technical specialists include: internal, fiscal intermediary, and medical (Professional Standards Review Organization, or PSRO) auditors, and internal and external attorneys. Because the frequencies themselves are quite revealing, they are presented in Table 5.25. Table 5.26 contains those specialists for which differences were detected between the perceptions of respondents from the various FA/IC board structures.

Eighty percent of respondents felt that the use of the internal audit staff by trustees to assist the latter pursue FA/IC issues is either not worthy of any consideration (44 percent) or should be actively opposed (36 percent). This response is quite surprising. Unfortunately, respondents were not given the opportunity to relate why they felt this way; a number of possibilities exist. Similar responses were received on using internal attorneys. Almost 70 percent thought the idea of using them was either not worthy of any consideration (35 percent) or should be actively opposed (24 percent). Conversely, the idea of using the fiscal intermediary auditor was more favorably received; 60 percent thought their use was either worthy of whole-hearted support (45 percent) or worthy of consideration (15 percent). None of

TABLE 5.25

FREQUENCY OF RESPONSES TO THE IDEA OF UTILIZING TECHNICAL SPECIALISTS TO ASSIST HOSPITAL TRUSTEES ADDRESS FA/IC ISSUES

Technical Specialist	Board Structure	Response By Choice of Idea* A	B	C	D	E	No Response
Internal Audit Staff	Single	2	2	9	19	17	2
	Joint	5	3	14	51	47	5
	Multiple	3	4	6	29	20	0
	Full	1	1	1	12	8	1
Fiscal Intermediary Auditor	Single	19	8	8	8	6	2
	Joint	52	17	29	21	3	3
	Multiple	32	11	11	5	3	0
	Full	12	2	5	2	2	1
Hospital External Attorney	Single	3	2	13	21	11	1
	Joint	5	5	21	48	43	3
	Multiple	4	5	12	19	22	0
	Full	2	3	5	11	2	1
Medical Auditors (PSRO)	Single	11	8	21	7	3	1
	Joint	25	32	36	25	4	3
	Multiple	19	15	19	9	0	0
	Full	11	5	3	4	0	1
Internal Attorney	Single	3	7	12	18	8	3
	Joint	10	7	30	38	31	9
	Multiple	6	4	15	21	15	1
	Full	1	1	5	10	4	3

*A = worthy of whole-hearted support; B = worthy of consideration; C = may or may not be worthy of consideration; D = is not worthy of any consideration; E = should be actively opposed.

TABLE 5.26

TEST STATISTICS APPLIED TO THE WORTH OF UTILIZING TECHNICAL SPECIALISTS TO ASSIST HOSPITAL TRUSTEES ADDRESS FA/IC ISSUES

	Mean Rank of Worth					
	Committee Structures			Full	Kruskal-Wallis	Significance
Technical Specialist	Single	Joint	Multiple	Board	Test Statistic	Level
External Attorney	139.70	119.16	127.73	161.35	8.322	.040
Medical Auditor (PSRO)	118.31	121.79	140.42	159.70	8.085	.044

	Board Structures	Mean Ranks		Mann-Whitney U Test	
Technical Specialist	Compared	Joint	Full	Statistic	Probability
External Attorney	Joint/Full	69.17	93.90	936.0	.008

the experts mentioned above was perceived differently by respondents representing the various FA/IC board structures.

External attorneys and medical (PSRO) auditors were both perceived differently by respondents from various FA/IC board structures. The use of external attorneys was not looked upon with favor. Approximately 70 percent thought they were not worthy of any consideration (39 percent) or should be actively opposed (30 percent). Table 5.26 shows there to be a perceptual difference between respondents from joint committees and full board structures. Medical (PSRO) auditors, on the other hand, were perceived favorably by about half the respondents, with 26 percent whole-heartedly supporting the idea of their use, and 23 percent viewing them as worthy of consideration. Although an overall difference in perceptions of respondents from the four FA/IC board structures was detected, no single contrast was significant at the .02 level. The joint committee/full board contrast was significant at the .021 level.

Considerable agreement exists between what chief financial officers think of the idea of trustees using technical specialists and the actual number of meetings taking place between trustees and technical specialists. Internal auditors epitomize the agreement between what is and what respondents perceive should be; they meet infrequently with trustees and are perceived of as not worthy of consideration or worse. One exception exists; respondents think the fiscal intermediary auditor could assist trustees address FA/IC issues; presently, such auditors hardly meet with trustees.

D. AUDIT FUNCTIONS

Introduction

Two separate but interrelated audit functions are examined in this section. First, three questions that assist in identifying the type and extent of the relationship between hospitals and CPA's are explored. Second, various aspects of the internal audit function are investigated.

External Auditors

Nearly all hospitals, 98.8 percent, use the accounting services of a CPA firm, and all have their annual general purpose financial statements audited. Table 5.27 illustrates that a difference exists between the size of the CPA firm used by a hospital and its FA/IC board structure. An examination of both the frequencies and related percentages underlies the following two observations. Little use is made of regional CPA firms, and substantial use is made of national CPA firms. Hospitals without an FA/IC committee make proportionately greater use of local CPA firms than national CPA firms.

Internal Audit Function

To the question, "Does your hospital have an internal audit function?" no difference was found to exist between hospitals based upon the type of FA/IC board structure used. Appendix Table C.25 contains the frequencies of responses. The existence of an internal audit function ranges between 44 percent for hospitals with a joint committee structure to 60 percent for hospitals with a multiple committee structure. One might reasonably expect that more than 49 percent of all reporting

TABLE 5.27

ASSOCIATION BETWEEN HOSPITAL BOARD STRUCTURE USED TO ADDRESS FA/IC ISSUES AND THE SIZE OF THE CPA FIRM SERVING THE HOSPITAL

	Hospital Committee Structures							
	Single		Joint		Multiple		Full Board	
Size of CPA Firm	n	%	n	%	n	%	n	%
Local	10	20	23	18	7	11	11	46
Regional	4	8	19	15	6	10	3	12
National	35	72	83	67	49	79	10	42
Total	49	100	125	100	62	100	24	100

Chi-Square Test Statistic	D.F.	Significance Level
16.2779	6	.0123

hospitals would have an internal audit function given the wealth of financial and operational audit tasks that could be performed.

Table 5.28 presents the average number of individuals who devote full- and part-time work effort to the internal audit function. The number of respondents should not be overlooked. Hospitals with multiple committees have the greatest incidence of full-time internal auditors, 37 percent (23 out of 62). Only 12 percent (three out of 24) of hospitals with full board FA/IC structures report having full-time internal auditors. Typically, two auditors are employed by those hospitals having full-time auditors. No difference was detected between hospitals based upon type of FA/IC board structure used.

The incidence of part-time internal auditors is higher than full-time auditors. Hospitals with joint committees have the smallest incidence of part-time internal auditors, 27 percent (34 out of 125); full boards have the highest incidence, 41 percent (10 out of 24). Once again, no between board structure difference was noted. The average number of part-time internal auditors is approximately two.

In an effort to assess the extent that internal auditors are independent, three questions were asked. For those performing the internal audit function part-time, respondents were asked to identify what other job title or duties the individual has. Respondents were also asked to relate the job title of the internal auditor's immediate supervisor and the highest functional level within the organization to which reports or presentations by the internal auditor would go. These questions are pertinent as independence is associated with both organizational status and objectivity (13, 48). The lower the

TABLE 5.28

NUMBER OF INDIVIDUALS DEVOTING FULL- OR PART-TIME EFFORT TO THE INTERNAL AUDIT FUNCTION

Extent of Effort	Board Structure	Number of Respondents	Mean Number of Individuals	Standard Deviation
Full-Time	Single	9	1.7	1.1
	Joint	26	1.7	1.3
	Multiple	23	2.0	1.3
	Full	3	2.0	1.0
Part-Time	Single	19	1.9	1.3
	Joint	34	1.9	1.0
	Multiple	19	1.9	1.1
	Full	10	1.9	1.2

organizational status, the less visible the auditor or his/her reports to those in a position to initiate positive change, and the less likely they would be able to generate the necessary respect of organizational employees to produce a creditable work product. Similarly, where an individual examines his own work, that of colleagues, or supervises the work that later is audited, objectivity is open to compromise.

The majority of other duties undertaken by internal auditors, as judged by their other job title, appears to impact negatively on the independence of the internal auditor. Table 5.29 lists in descending order the internal auditor's other job titles. The first three job titles, which comprise approximately 70 percent of the responses, indicate that the internal auditor is, in addition to his internal audit duties, either an active participant in processing transactions or in supervising those who process them.

Table 5.30 contains the job titles of the internal auditor's immediate supervisor. In only three percent of the cases does the board or one of its committees act in this supervisory capacity. In 15 percent of the cases, the president supervises the internal auditor. Individuals with financially oriented job titles, such as vice-president of finance or director of finance, serve as immediate supervisor to the internal auditor in 53 percent of the cases. Organizational status of the internal auditor appears well positioned in the hierarchy of the organization in all but a few situations. Reporting to the controller, accounting supervisor, and others more immediately involved in the accounting process is undesirable.

TABLE 5.29

PART-TIME INTERNAL AUDITOR'S OTHER JOB TITLE

Job Title	Frequency	
	No.	%
Staff Accountant	26	31.7
Other*	22	26.8
Controller	11	13.4
Third-Party Reimbursement	8	9.7
Budget Director	5	6.1
Director of Finance	4	4.9
Chief Financial Officer, V.P. Finance	3	3.7
Systems Analyst	3	3.7
Total	82	100.0

*Includes a mixture of job titles, most of which are related to the accounting function at a subordinate level.

TABLE 5.30

JOB TITLE OF INTERNAL AUDITOR'S IMMEDIATE SUPERVISOR

Job Title	Frequency	
	No.	%
V.P. Finance, CFO, Assistant Administrator of Finance	32	29.9
Director of Finance	25	23.4
President, Administrator	16	15.0
Controller	14	13.1
Accounting Supervisor	7	6.5
Executive V.P., Senior V.P., Assistant Administrator	6	5.6
Board, Audit Committee, Other Committees	3	2.8
Financial Analyst	2	1.9
Other	2	1.9
Total	107	100.0

From reviewing Table 5.31, one might conclude that reports and presentations of the internal auditor do go to a high enough organizational level to be effective. In 40 percent of the cases, the board or one of its committees receives communication from the internal auditor. In another 40 percent of the cases, the president is the senior operating officer to receive reports from the internal auditor. Only 20 percent of those functional levels identified can be questioned as lacking sufficient organizational status to act upon the report of the internal auditor.

E. RELATIONSHIP OF FA/IC BOARD STRUCTURE AND THE HOSPITAL'S OTHER IDENTIFIABLE INSTITUTIONAL ATTRIBUTES

Introduction

Examination is made of the relationship between the board structure employed to address FA/IC issues, the primary institutional attribute used throughout this study, and three other institutional attributes: bed size, utilization of a management contract, and geographical location of the hospital. One other attribute was previously examined, namely, size of the external accountant's firm; a relationship was found to exist.

Institutional Attributes

One of the three institutional attributes, utilization of a management contract, does not bear a relationship with the FA/IC board structures. Only 17 hospitals cited the existence of a mangement contract.

TABLE 5.31

HIGHEST FUNCTIONAL LEVEL TO WHICH REPORTS AND PRESENTATIONS OF THE INTERNAL AUDITOR WOULD BE PRESENTED

Functional Level	Frequency	
	No.	%
President, Administrator	44	39.6
Board	15	13.5
Audit Committee, Finance Committee	15	13.5
Director of Finance	10	9.0
President, Audit Committee	8	7.2
Executive V.P., Senior V.P.	7	6.3
V.P. Finance	6	5.4
Chief Financial Officer, Audit Committee	6	5.4
Total	111	100.0

A relationship was found to exist between geographical region and FA/IC board structure; Table 5.32 contains a cross-tabulation of four geographical regions matched against four FA/IC board structures. Single and joint committee structures appear to be concentrated in the Northeast and North Central sections of the country; multiple committees seem to be sparse in the West; while the Northeast appears to have very few full board structures. Also, across the four geographical regions, the trend of full board structures appears to be opposite that of the trend of committee structures.

A relationship was also found to exist between FA/IC board structures and hospital bed size; Table 5.33 contains a cross-tabulation of four FA/IC board structures by four bed size categories. Full board structures are concentrated in smaller hospitals while multiple committee structures are predominantly found in larger hospitals. Single committee structures are rather uniformly distributed through hospitals with up to 500 beds; multiple committees increase in number as the size of the hospital increases, while full boards have just the opposite relationship with the size of the hospital. A difference between the two variables was also found to exist when six bed size categories were used. The first five categories were in increments of 100 beds; the last category was for those hospitals having greater than 500 beds. A significant difference between bed size and FA/IC board structure exists at the .0037 level.

TABLE 5.32

CROSS-TABULATION OF FA/IC BOARD STRUCTURES BY GEOGRAPHICAL REGION

Geographical Region	FA/IC Board Structure							
	Committees							
	Single		Joint		Multiple		Full Board	
	n	%	n	%	n	%	n	%
Northeast	17	33.3	35	28.0	24	38.7	1	4.2
North Central	18	35.3	42	33.6	15	24.2	8	33.3
South	10	19.6	19	15.2	16	25.8	9	37.5
West	6	11.8	29	23.2	7	11.3	6	25.0
Total	51	100.0	125	100.0	62	100.0	24	100.0

Chi-Square Test Statistic	D.F.	Significance Level
19.86517	9	.0188

TABLE 5.33

CROSS-TABULATION OF FA/IC BOARD STRUCTURES BY HOSPITAL BED SIZE

	FA/IC Board Structure							
	Committees							
	Single		Joint		Multiple		Full Board	
Bed Size	n	%	n	%	n	%	n	%
1-149	14	27.5	32	25.6	5	8.1	12	50.0
150-299	15	29.4	40	32.0	16	25.8	4	16.7
300-499	14	27.4	36	28.8	18	29.0	5	20.8
≥500	8	15.7	17	13.6	23	37.1	3	12.5
Total	51	100.0	125	100.0	62	100.0	24	100.0

Chi-Square Test Statistic	D.F.	Significance Level
29.14110	9	.0006

F. CONCLUSIONS

Hospital FA/IC committee structures identified more FA/IC purposes and functions than did full boards. This supports the contention that a committee structure does provide the opportunity to devote time to more issues. In particular, more FA/IC purposes and functions related to the independent auditor were addressed by committees than full boards.

Multiple committee structures, more than either single or joint committee structures, appear to view as more important FA/IC purposes and functions. This is attributed to the allocation of functions among committees and the resultant increase in importance of these fewer functions assigned to each committee.

All hospital FA/IC board structures viewed as among the most important and effectively pursued functions reviewing budgets and comparing them to actual and discussing the meaning and significance of the audited financial statements. Least important were those functions associated with the internal auditor. It appears that all hospital FA/IC boards' structures should more closely examine the lack of emphasis given the internal audit function.

Although many factors are to be considered in deciding whether to initiate a committee to address FA/IC issues, one factor to consider when deciding whether or not to establish a committee is the size of the full board. From the evidence presented here, the size of the hospital full board, where no FA/IC committee exists, would be sufficient to support either a joint or single FA/IC committee structure.

Respondents appear conservative and want to avoid having trustees serve on FA/IC committee structures whose other relationships and/or activities would detract from an independent examination of financial issues. These perceptions set the stage for effectively functioning committees.

Hospital FA/IC board structures should meet more often with external FA/IC experts than they currently do. Unfortunately, contact between trustees and internal experts, who are possibly less independent, occurs with substantially much greater frequency.

CHAPTER VI

SUMMARY AND CONCLUSIONS

The objective of this study was to determine how trustees of voluntary short-term general hospitals address FA/IC issues. Accountability of the organization to its constituents is enhanced when increased attention is paid to these issues by governing boards. FA/IC issues may be addressed by the full board or one of three board committee structures: a single committee, a joint committee, or a multiple committees structure.

Two general research questions concerning the manner and extent boards of trustees of voluntary short-term general hospitals address FA/IC issues were explored. The first question concerned an examination of differences between the way hospital boards of trustee committees address FA/IC issues and the way corporate board committees addressed similar issues as described in the Mautz and Neumann study (88). Mautz and Neumann referred to any committee having a specific charge to review or supervise the work of the independent or internal auditors as an audit committee. As the major emphasis of this research was to determine the manner and extent that hospital boards address financial accounting and internal control issues, the phrase audit committee was avoided.

The second question concerned the comparison of factual and perceptual characteristics related to FA/IC issues based upon the hospital board structure used to address such issues. Additional analysis was done to determine if FA/IC board structure was independent of the following institutional attributes: bed size, utilization of a

management contract, size of the external accountant's firm, and geographical location of the hospital.

This chapter is divided into three sections. The first two sections provide a recapitulation of the broad research questions, hospitals compared to corporations, and hospitals based upon FA/IC board structure used. Suggestions for further research are examined in the concluding section.

A. HOSPITALS COMPARED TO CORPORATIONS

This section provides a synopsis of, and draws conclusions about, the research question comparing the manner and extent to which hospital board of trustee FA/IC committee structures address FA/IC issues compared to their corporate counterparts. The analysis is subsumed within two areas: FA/IC purposes and functions and structural practices and procedures.

FA/IC Purposes and Functions

Most FA/IC purposes suggested in the questionnaire were identified by respondents from both groups. The range of frequency with which purposes were identified, with the exception of the five least frequently pursued purposes, was between approximately 80 through 98 percent. Least frequently identified purposes ranged between 37 and 40 percent for hospitals and between 76 and 81 percent for corporations.

Substantial agreement exists between those most frequently identified purposes and those most important purposes. Both groups agreed that the FA/IC purpose of utilizing a committee to relieve the board, as a whole, of details regarding the review of the results of the

independent audit was among the most important, as was the purpose of providing regularly for direct and personal contact between board members and an FA/IC expert. However, each selected a different expert. The independent auditor was selected in the corporate arena, while the financial officer was the choice among hospital respondents. This appears to imply the retention of power by financial officers.

A consensus of corporate respondents emerges as to the singularity of importance of purposes associated with activities of the independent auditor, while hospital respondents agreed upon the unimportance of purposes related to internal auditors. No between group difference was noted on the lack of importance of purposes related to the audit planning and development nor on the moderately rated purpose of improving the effectiveness of internal financial and operational controls. Associated with this latter purpose, corporate respondents view as moderately important purposes tied to internal auditors, while hospital respondents view as unimportant FA/IC purposes linked to internal auditors.

Hospitals appear to pursue FA/IC functions more frequently than do corporations. Functions most frequently pursued by both groups were discussions of the meaning and significance of the audited financial statements and of the effectiveness of internal controls. Here, the similarity ends.

Hospital FA/IC committee functions are dispersed across a wide range of functions and are indicative of the industry's environment, its concern with risk management and cost containment. Functions undertaken include reviewing budgets, insurance programs, and discussing the number and quality of personnel in the accounting and finance areas. Corporate

committees, on the other hand, most frequently pursue functions related to the work of the independent auditor. Hospital committees least frequently pursue functions related to the internal auditor, while corporate committees address least frequently functions beyond those traditionally associated with the external and internal audit functions.

In terms of importance, both groups rank discussing the meaning and significance of the audited financial statements and approval of the independent auditor among their most important FA/IC functions. Corporate respondents view as most important functions related to the work of the independent auditor, discussing scope and timing of audit, problems encountered, and the meaning and significance of audited financial statements. Hospital respondents saw as important a more varied set of functions, among them reviewing budgets and comparing them to actual results and discussing compliance with legal and social obligations. Of least importance to hospital committees are internal auditor functions. Least important to corporate committees were detailed audit activities, discussion of legal and social obligations, and reviewing budgets, the same functions considered most important to hospital FA/IC committees.

Respondents from both groups felt that those functions which they thought were most important to the FA/IC committee were the same functions the committee pursued most effectively. Corporate respondents perceive all functions associated with the external auditor as effectively pursued; hospital respondents rated reviewing the budgets and the discussion of legal and social obligations as most effectively pursued functions.

Approximately 90 percent of both hospitals and corporations have FA/IC committees. Although the percentage of corporate committees that have the designation "audit" in the title is not known, nearly 30 percent of hospital FA/IC committees have such a designation. Approximately 40 percent of hospitals and 20 percent of corporations said they had an FA/IC committee for more than ten years. This response can, in part, be explained by the concerns of the committee with a broader range of functions, including reviewing budgets. About 80 percent of corporations and hospitals stated that there had been no significant change in the composition, responsibilities, or other characteristics of their committee within the last five years. This is surprising, given the negative media coverage of organizational governance.

Structural Practices and Procedures

Hospital boards are larger than corporate boards. This fact, combined with the notion that community members have a stake in the viability of the hospital, supports the feasibility of a committee structure to address FA/IC issues in a hospital. The existence of such a committee in the corporate sector has not been questioned, except in cases in which the full board is small and cannot support a committee structure and/or the firm is controlled by a few stockholders. Hospitals also have a longer term of office for board members than corporations; the pooled median is two years. This seems to support the contention of self-perpetuating hospital boards. Hospitals also have more regular, but shorter, meetings; the pooled median is ten meetings. This seems natural given the relationship that exists between the entity and board members who reside in the community.

A majority of hospitals exceed, while a majority of corporations do not exceed, a pooled median FA/IC committee membership of five people. The larger membership of hospital committees is due to their joint and multiple committees' structures. Hospital FA/IC committees meet more frequently than their corporate counterparts probably both for reasons of close proximity between community members and the entity and the joint and multiple committee structures.

Turning to the matter of independence, approximately 50 percent of hospital and only 20 percent of corporate committees acknowledge the existence of officer board members on their FA/IC committees. The high incidence of officers on hospital committees illustrates the power and influence of the officers on the committees of which they are a part. As to the acceptability of stated activities and relationships of board members, a near majority of respondents from both groups take conservative positions in denying membership to consultant-stockholders, officer-stockholders, and underwriters.

Using the criteria set out by Mautz and Neumann, it appears that hospital FA/IC committees appear to be in the initial stage of development. This conclusion is based upon the large number of committees on which officer trustees serve and the substantial lack of consideration given internal auditor functions. Primary emphasis is placed on a broad range of activities, including reviewing the budget, and not concentrated on related functions, such as those associated with the independent auditor. This adds weight to the argument supporting an initial stage of development for hospital FA/IC committees.

B. A COMPARISON OF HOSPITALS BY FA/IC BOARD STRUCTURE USED

This section summarizes and draws conclusions about the second research question, which examines the way hospital boards address FA/IC issues. The material is divided into the following topical areas: FA/IC purposes and functions, structural practices and procedures, strengthening the trustee's role, audit functions, and relationships between board structure and other attributes.

FA/IC Purposes and Functions

Most FA/IC purposes were identified by respondents from each of the four FA/IC board structures. Purposes identified by all board structures include providing a direct and personal contact on a regular basis between non-officer trustees and the financial officer of the hospital, giving evidence of due care in the performance of trusteeship responsibilities, and evidencing a responsible attitude by management.

Personal contact between trustees and the independent auditor occurs with a frequency of not less than 90 percent for FA/IC committee structures. On the other hand, it is among the least frequently identified purposes (66 percent) for the full board structure. Personal contact and, therefore, power appear to be retained by financial officers of hospitals associated with full board FA/IC structures, whereas power of financial officers of hospitals with FA/IC committee structures appears to be diluted by the inclusion of the independent auditor among those who have contact with trustees.

All board structures identified a wide range of FA/IC purposes associated with improving the knowledge and understanding of trustees, specifically with regard to: the existence and role of financial accounting and internal controls, financial statements and alternative sources of information, evaluating accounting and financial policies, procedures, and personnel, and appraising policies and procedures to prevent illegal and unethical acts. Also identified were five purposes, all of which were associated with improving the knowledge and understanding of trustees toward the role and scope of the independent auditor's function. Purposes related to the independent auditor were identified less frequently by full board structures than by any committee structure. Given the emphasis on educating trustees, how can these latter purposes be effectively pursued without an equivalent purpose of providing a direct and more personal contact between board members and the independent auditors?

Least frequently identified by all board structures are all those purposes associated with the internal auditor. Multiple committees identified these purposes more often than any structure; full boards identified those purposes less than any committee structure.

The most frequently identified purposes were the same ones judged most important. Contact between trustees and the hospital's financial officer was among the most important purposes. However, contact between trustees of committee structures and independent auditors was perceived to be of moderate importance, while similar contact by trustees of full board structures was perceived to be of low importance. Clearly, the power of financial officers is greatest in non-committee

hospitals since the importance of board contact with the independent auditor is regarded as low in importance. This only serves to reduce the substantive contact between trustees and another FA/IC expert and heighten the reliance by the board upon the financial officer. Coincidentally, in the for-profit sector, a critical factor in the formation of a board committee to address FA/IC issues was the support and encouragement of, among others, the chief financial officer. Also viewed as high in importance were purposes associated with educating trustees and the stewardship role of trustees.

Respondents from all board structures perceive all purposes related to the internal auditor as being least important. Hospitals appear to lack enthusiasm for internal auditor related FA/IC purposes.

Approximately one-half of the differences on the perceived importance of purposes among FA/IC board structures exist between committee structures and the full board; the other half exists between committee structures, primarily between joint and multiple committees. Also, each committee structure differed from the full board on the importance of the purpose of providing a direct and personal contact between trustees and the independent auditor. Looked at another way, of the 12 purposes for which differences on the perceived importance of purpose were found, four were associated with the internal auditor.

All hospital board structures identified as their first or second most frequently undertaken function reviewing the budget and comparing it to actual results. This is the only function of the five most frequently pursued functions where a consensus of all structures was found to exist.

Related to the work of the independent auditor, all FA/IC committee structures place discussing the meaning and significance of audited figures and notes thereto as their most frequently pursued function with frequencies ranging between 94 and 98 percent. Seventy-five percent of full board structures pursue this function. A somewhat lower, but similar percentage relationship, was found for the function of discussing problems and experiences in completing the audit. Full boards pursue this function in 62 percent of the cases. Committee structures are generally more inclined to address FA/IC functions related to the work of the independent auditor than are full boards. Significantly lower percentages for full boards than committee structures were also found for functions related to the concern of trustees for the effectiveness of the hospital's system and controls.

A committee, as an organizational form and functional body, has as the prime reason for its creation the ability to devote time to issues judged to be important by the full board. The purpose of a committee structure seems to have borne itself out; more functions are undertaken by FA/IC committee structures than full board structures. Multiple committees pursue all the functions mentioned in the preceding paragraph more often than the other committee structures.

Other functions most frequently pursued include reviewing the hospital's insurance program, approving signatures for bank accounts and borrowing, and discussing efforts to comply with legal and social obligations. The frequency with which these functions are pursued can be traced to both the exogenous and indigenous environment in which hospitals find themselves.

Functions related to the internal auditor are pursued least frequently by all FA/IC board structures. Half of the multiple committee structures pursue these functions, while only 25 percent of the full board structures pursue them.

Substantial agreement exists not only between those functions most frequently pursued and perceived to be important but also the order of the functions as they appear within the two sets. Agreement exists among all four board structures on the importance of the following two functions: reviewing budgets and comparing them to actual results and discussing the meaning and significance of audited figures and notes thereto. Recall that the FA/IC purpose of providing a direct and personal contact with the hospital's financial officer was perceived as among the most important of all board structures, while similar contact with the independent auditor was moderately important to committee structures and of low importance to full board structures. Along this line, committee structures viewed as high (multiple) to moderately important (single and joint) the function of discussing problems and experiences in completing the independent auditor's examination; full board structures viewed this function as low in importance. In like fashion, committees viewed the function of discussing the effectiveness of internal controls as important, while the full board structure viewed this function as unimportant.

Perceived as least important for all board structures were those functions associated with the internal auditor. Multiple committees seemed more concerned and full board structures least concerned with these functions.

Differences in the ratings of importance by respondents representing the four board structures were found for 11 functions. Four functions were among those found to be least important while two were among those found to be most important. The latter two functions included discussing problems and experiences in completing the independent audit and discussing the effectiveness of the hospital's system of internal control. A common source of differences on these two, as well as other, functions existed between multiple committees and the full board. Of the 25 pairs of contrasts, 60 percent were found to exist between some committee structure and the full board structure.

Substantial overlap exists between those functions most effectively pursued and those functions judged to be important. A similar statement can be made about the five least effectively pursued and least important functions. Reviewing budgets and comparing them to actual was among the most effectively undertaken function of all structures. Discussing the meaning and significance of audited statements was among the most effectively pursued functions of all FA/IC committee structures and among the least effectively pursued function of full board structures.

Discussing the effectiveness of internal controls was among the top ten most effectively pursued functions of all structures. All committee structures viewed it among their most important functions; full committees placed it as rather low in importance. Few full board structures appear to pursue this function, but those that do undertake this function do so effectively.

Among those functions judged not to be of importance and also least effectively pursued by all board structures, three are associated with the internal auditor. Others include reviewing reports submitted to regulatory bodies, and reviewing accounting principles and practices. This writer believes that benefit to the hospital could be derived from having trustees review the cost report submitted to the auditing representative of the Medicare-Medicaid fiscal intermediary. It seems unreasonable that, on the one hand, respondents feel it is important that trustees discuss the meaning and significance of the financial statements, and that they feel trustees of committee structures do it well; and, on the other hand, that respondents feel it is important that trustees review accounting principles and practices and that they feel trustees pursue this latter task ineffectively.

Committee structures place among their ten least important and effectively undertaken functions the discussion of fraud situations or fidelity bond losses. Full boards place this among their ten least important, but among their ten most effectively undertaken functions. The consensus among all respondents as to the unimportance of this function is discouraging.

Of the 262 responses received, 238 (91 percent) indicated their boards use a committee structure to address FA/IC issues. By type, committees are divided among the three possible structures in the following proportions: single (21 percent), joint (53 percent), and multiple (26 percent). In the aggregate, the term "finance" is used in the name of 210 (90 percent) committees and the term "audit" is used in the name of 65 (28 percent) committees. The age of committees range

between ten and 14 years; full boards average 20 years of age. A majority of respondents from committee structures and nearly all those from full board structures indicated that no significant change had taken place within the past five years in the composition, responsibilities, or other characteristics describing how FA/IC issues are addressed. Hospitals, as maintenance organizations, have previously been judged slow to respond to change taking place in the environment around them. This seems to be the case with FA/IC board structures. Although engaged in a large number of FA/IC functions, their more important ones lie in the areas of reviewing budgets and audited financial statements. These do not appear to be the more pressing functions which have come to light in the past few years. They include a greater concern for internal audit and internal auditor functions, examination of accounting principles and practices underlying financial statements, and meeting the independent auditors and discussing with them the scope of the audit, as well as problems and experiences in completing the audit.

Structural Practices and Procedures

The size of the hospital's full board ranged between 27 members for multiple committee structures and 14 members where only the full board addresses FA/IC issues. Yet, the latter appears to be of a size sufficient to support an FA/IC committee. Approximately 10 to 15 percent of the full board is composed of operating officers of the hospital. Board member term of office approximates three years and terms are renewable. About ten regular meetings are held each year, each averaging two hours in length.

FA/IC committees are composed of between seven and 12 members; multiple committees having the greatest number. On the average, about one member of each committee is an operating officer of the hospital. Term of office on a committee approximates two years with terms being renewable in most cases. Meetings per year range between eight and 11 with each one-and-a-half to two hours in length. The fact that both board and committee terms are renewable would indicate self-perpetuating structures.

Approximately half of the committee structures have one or more trustees who are also operating officers serving on FA/IC committees. No differences were detected between the three FA/IC committee structures. In 91 percent of the cases, the operating officer was at the vice-president level or above. In 25 percent of the cases, the operating officer served as chairman of the committee; in approximately 90 percent of the cases, they appear to serve as voting members. Operating officers bring a substantial amount of power to the committee by virtue of the knowledge they possess about the hospital and this power is only reinforced by the role they play on the committee. It has been contended that operating officers serving on committees of this type lack independence and use their power to protect their positions.

When asked which of six activities or relationships in addition to their board responsibilities would prohibit a trustee from serving on an FA/IC committee, respondents replied that being a consultant to the hospital, an operating officer, an insurance/security underwriter, or a major supplier to the hospital were unacceptable activities. Holding bonds or being the hospital's primary banker were viewed as not

prohibiting a trustee from serving on the FA/IC committee. No differences exist between responses when classified by FA/IC board structures.

Strengthening the Trustee's Role

Chief financial officers were asked to identify the number of meetings that take place between trustees and five internal and three external FA/IC experts. Among them, administrators and chief financial officers, internal experts, meet ten to 12 times a year with trustees who address FA/IC issues; three times more often than any other group of specialists. Internal auditors meet, on the average, approximately once a year with trustees, while the external independent auditor meets between 1.5 and 2.0 times a year with trustees. The auditing representative for the fiscal intermediary rarely meets with trustees. Differences as to the average number of meetings between trustees and all specialists exist primarily between multiple committees and the full board.

Interestingly, the more powerful and apparently less independent insiders meet more often with trustees. External FA/IC experts, such as the CPA and fiscal intermediary auditor, offer both a more objective viewpoint and a breadth of experience gathered while working with a number of other hospitals. When asked to evaluate the worth of five groups of technical specialists in terms of the ability of each to act in the capacity of an autonomous staff to assist trustees in addressing FA/IC issues, most respondents felt that internal auditors, internal attorneys, and external attorneys were either not worthy of any consideration or should be actively opposed. On the other hand, a majority

felt that both the fiscal intermediary and PSRO auditors were either worthy of whole-hearted support or worthy of consideration. Very few differences in responses from those associated with the board structures were noted. Internal auditors epitomize the extent of agreement between what is and what respondents perceive should be. However, respondents do think the fiscal intermediary auditor could assist trustees address FA/IC issues; presently, such auditors hardly meet with trustees.

Audit Functions

Nearly all hospitals use the accounting services of a CPA firm, and all have their annual financial statements audited. It appears little use is made of regional firms and substantial use is made of national firms. Hospitals without FA/IC committees make proportionally greater use of local CPA firms.

Approximately half of the hospitals have an internal audit function; no differences between board structures were found. Between 12 and 37 percent of hospitals, classified by FA/IC board structure, said they had approximately two full-time internal auditors, while between 27 and 41 percent said they had approximately two part-time internal auditors. In neither case was a difference between FA/IC board structures detected. It appears that part-time internal auditors are not independent as a majority of the other duties undertaken by them show the internal auditor to be an active participant in processing transactions or supervising those who process them. The organizational status of the internal auditors and the organizational level to which their reports go are both well positioned. Internal auditors report to senior

operating officers or the board, and their written reports and presentations go to either the president or board in most cases.

Relationship Between Board Structure and Other Attributes

A relationship was found to exist between the board structure employed to address FA/IC issues and three other institutional attributes: size of external accountant's firm, hospital bed size, and geographical location of the hospital. Size of accountant's firm was discussed previously. As concerns the relationship to hospital bed size, full board structures are concentrated in smaller hospitals, while multiple committee structures are predominantly found in larger hospitals. Geographical area is associated with FA/IC board structures in the following way: single and joint committees are concentrated in the Northeast and North Central sections of the country; the Northeast has very few full board structures, while the West has very few multiple committees. Across the four geographical regions, the trend of full board structures appears to be opposite that of the trend of committee structures.

C. SUGGESTIONS FOR FURTHER RESEARCH

Since hospital governing boards have not been heavily researched, a number of extensions of the work undertaken here are possible. Some additional opportunities for related research are indicated in the following paragraphs.

The research presented here examined the largest group of hospitals, namely, voluntary short-term general hospitals. Yet, there are a number of other types of hospitals against which the specific methodology employed here could be applied. Ownership types include proprietary

and the various kinds of government-related hospitals. Service types include a multitude of long-term and special illness facilities.

The internal audit function deserves a more in-depth examination. Why, for instance, do hospital chief financial officers perceive an autonomous internal audit staff to assist trustees in pursuing FA/IC issues as being either not worthy of any consideration or actively opposing it? What educational background do hospital internal auditors have, what specific financial and operational auditing assignments do they perform, and what organizational factors are associated with some hospitals having an internal audit function while other hospitals do not have such a function?

It would be worth exploring the extent that board selection or recruitment committees and such things as formalization of committee operating procedures have on the effective pursuit of FA/IC activities by hospital boards and their committees.

The relationships that were found to exist between type of FA/IC board structure and bed size and size of CPA firm could be investigated further to determine the underlying reasons for such relationships. As the average size of the hospital full board having no FA/IC committee structure approximates 14 members, and as this seems sufficient to support a committee structure, the relationship appears to be worth exploring. Recall that smaller CPA firms had voiced opposition to audit committees.

As maintenance organizations, hospitals have been accused of being slow to adapt to change taking place in the surrounding environment. Such was the case with specific FA/IC functions judged to be

important in the corporate setting and to the process of organizational accountability to constituents. A replication of the study presented here in, say, five years, would show the type and extent of changes taking place in hospital governance as concerns FA/IC issues.

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APPENDICES

APPENDIX A

THE UNIVERSITY OF TENNESSEE
KNOXVILLE 37916
COLLEGE OF BUSINESS ADMINISTRATION

DEPARTMENT OF ACCOUNTING AND BUSINESS LAW

November 20, 1980

Dear

I am conducting a doctoral dissertation study at The University of Tennessee concerning the manner and extent to which boards of trustees of voluntary short-term general hospitals address financial accounting and internal control issues. The HFMA is assisting me by providing information concerning CFO's of hospitals. Your name was selected from information which they provided.

Please complete the enclosed questionnaire. A pretesting indicated that approximately twenty minutes are required to complete the instrument. The importance of your response to the success of this study rests upon the fact that you are an expert in the financial affairs of hospitals, as indicated by your position as a hospital chief financial officer. In addition, the fact that a random sample of all CFO's was taken only serves to increase the significance of responses received from those few people included in the sample.

The data collection procedures established for this research are geared to assure strict confidentiality. Also, complete anonymity will be maintained in the discussion of the results of this research. The enclosed questionnaire has an identification number in the upper right hand corner for follow up purposes only. If you feel the identification number presents an unreasonable burden, please remove it before returning your response.

As a courtesy, all participants will receive a summary of the results of this study.

Thank you very much for your time and consideration.

Sincerely,

Thomas A. Gavin

TG/ns

Enclosure

RESPONSE TO THIS QUESTIONNAIRE DOES NOT REQUIRE THE RETRIEVAL OF DATA.

QUESTIONNAIRE ON THE CONSIDERATION OF FINANCIAL ACCOUNTING AND INTERNAL CONTROL ISSUES BY BOARDS OF TRUSTEES OF VOLUNTARY SHORT-TERM GENERAL HOSPITALS

DIRECTED TO

HOSPITAL CHIEF FINANCIAL OFFICERS

INSTRUCTIONS

Throughout this questionnaire, the phrase "committee(s) structure" is defined as any committee(s) established at the board of trustee level which has (have) a specific charge to address financial accounting and internal control (FA/IC) issues and to supervise or review the work of independent or internal auditors. If two or more such committees share these responsibilities, please identify each in question 5(b) and respond in terms of the aggregate of all committees dealing with financial accounting and internal control (FA/IC) issues when responding to question 6(b). Where these responsibilities are performed by the board of trustees as a whole, no hospital committee exists as defined here. Nonetheless, the full board may be pursuing financial accounting and internal control (FA/IC) issues and so they are included in this study.

The term "non-officer trustee" as compared to "officer trustee" is used to describe a member of the board of trustees who serves the hospital in no other official capacity.

If the space allowed after a question is insufficient, please use additional pages.

QUESTIONS

1. How many total beds are in your hospital? _____

2. Is the administration of your hospital covered by a management contract? (yes, no) _____

3. (a) Please place on the line to the right the number corresponding to the region in which your hospital is located. _____

1. New England (CT,ME,MA,NH,RI,VT)
2. East North Central (IL,IN,MI,OH,WI)
3. West North Central (IA,KA,MN,MO,NE,ND,SD)
4. Mountain (AZ,CO,ID,MT,NM,NV,UT,WY)
5. South Atlantic (DE,DC,FL,GA,MD,NC,SC,VA,WV)
6. Middle Atlantic (NJ,NY,PA)
7. East South Central (AL,KY,MS,TN)
8. West South Central (AR,LA,OK,TX)
9. Pacific (AK,CA,HI,OR,WA)

(b) Is your hospital located in a standard metropolitan statistical area (SMSA - population of the area exceeding 50,000 inhabitants)? (yes,no) _____

(c) Do members of the board of trustees of your hospital discuss issues of mutual concern with board members from other hospitals in your area? (yes, no, don't know) _____

4. Which organizational structure does your board of trustees employ to address FA/IC issues which initially come before it? Although the full board has the ultimate authority and responsibility, it may be the only structure at your hospital, for a number of reasons, to deal with the issues mentioned above. Please circle the letter to the left of the one applicable answer.

(a) Single standing committee - a committee that only addresses FA/IC issues

(b) Joint standing committee - a committee that fulfills all of the FA/IC duties and also acts in another capacity such as pursuing the finance or budget or investment duties for the board of trustees.

(c) Multiple standing committees - when more than one committee of the board shares the FA/IC duties then multiple committees exist. For example the government relations or quality assurance committee might deal with the internal audit function and the finance committee might deal with the financial accounting function.

(d) Full board

5. (a) If a single standing committee or a joint standing committee addresses FA/IC issues please write the formal name of the committee in the space provided. _____

(b) If multiple standing committees address such issues please write the formal names of the committees in the space provided.
1. _____
2. _____
3. _____

6. All respondents are requested to provide the information for column (a). If your hospital's board has a committee(s) structure to address FA/IC issues please complete column (b). If a joint or multiple committee structure exists (see question 4), answer in terms of the aggregate number of meetings and duration of time spent addressing FA/IC issues.

	(a) Board of Trustees	(b) Committee(s) Structure to Address FA/IC Issues
Number of members	_____	_____
Number of non-officer trustees	_____	_____
Term of office (number of years)	_____	_____
Is term renewable (yes, no)	_____	_____
Average number of meetings per year to address FA/IC issues		
Regular	_____	_____
Special	_____	_____
Total	_____	_____
Average duration of meetings (number of hours)	_____	_____

7. Are there any members of your committee who are officer trustees?
__ No (Please skip to question 8)
__ Yes (Please answer the following questions)

a. What is their job title and principal functions within your hospitals?

_____

b. What is their position on the committee (e.g. chairman, secretary, member, etc.)?_____

8. For approximately how many whole years has the board of trustees used the organizational structure mentioned in question 4 to address FA/IC issues? _____

9. (a) Does your hospital use the accounting services of a CPA firm? If no, please skip to question 10. (yes, no) _____

(b) Please classify your CPA firm as a local, regional or national firm. _____

(c) Does your institution have its annual general purposes financial statements audited? (yes, no) _____

10. (a) Does your hospital have an internal audit function? If no, please skip to question 11. (yes, no) _____

(b) How many individuals devote their <u>part</u> time efforts to this function? _____

(c) What other job title/duties does the part time internal auditor have? _____

(d) How many individual(s) devote their <u>full</u> time effort to this function? _____

(e) Who, if any, is the internal auditor's immediate supervisor. Please give job title and not the name of the individual. _____

(f) What is the highest functional level within the organization to which reports and presentations of the internal auditor, if any, would be presented? _____

11. From the following suggested <u>purposes</u> for pursuing FA/IC issues listed below, and any you may wish to add, please rate their relative importance to <u>your</u> committee(s) designated to pursue FA/IC issues, if any exists, otherwise to your full board of trustees. It will be assumed that purposes rated not applicable (NA) are not purposes of your full board or committee structure designated to pursue FA/IC issues. Omit completely categories B and C below if you do not have a committee structure to address FA/IC issues. Please rate by placing one check on each row beneath the response scale.

Possible Purposes for Addressing FA/IC Issues	Importance of Purpose High				Low	NA
A. To provide a direct and more personal contact on a regular basis between non-officer trustees and:						
1. The independent auditors	__	__	__	__	__	__
2. The internal auditors	__	__	__	__	__	__
3. The financial officers of the hospital	__	__	__	__	__	__
B. Utilize a committee to relieve the board of trustees, as a whole, of details regarding:						
1. The nomination of the independent auditors	__	__	__	__	__	__
2. The arrangements for the independent audit	__	__	__	__	__	__
3. The review of the results of the independent audit	__	__	__	__	__	__
4. The review of the results of the internal audits	__	__	__	__	__	__
C. Utilize a committee to provide an advisory group for:						
1. The financial officers of the hospital	__	__	__	__	__	__
2. The internal auditors	__	__	__	__	__	__
3. The board of trustees	__	__	__	__	__	__
D. To provide an additional check on financial reports before their release to the public	__	__	__	__	__	__

Possible Purposes for Addressing FA/IC Issues	Importance of Purpose High				Low	NA
E. To give additional attention to the audit function performed by:						
1. The independent auditors	—	—	—	—	—	—
2. The internal auditors	—	—	—	—	—	—
F. To strengthen the objectivity and independence of:						
1. The independent auditors	—	—	—	—	—	—
2. The internal auditors	—	—	—	—	—	—
G. To improve the knowledge and understanding of non-officer trustees regarding:						
1. The nature, scope, and limits of the audit function	—	—	—	—	—	—
2. The existence and role of accounting and internal financial and operational controls	—	—	—	—	—	—
3. The generally accepted accounting and reporting practices and responsibilities	—	—	—	—	—	—
4. The financial statements and alternative sources of information	—	—	—	—	—	—
5. The hospital, its operations, and financial issues	—	—	—	—	—	—
H. To improve effectiveness of internal financial and operational control systems	—	—	—	—	—	—
I. To give added attention to the information system and reporting practices	—	—	—	—	—	—
J. To evaluate accounting and financial policies, procedures and personnel	—	—	—	—	—	—
K. To participate in specific audit and review activities	—	—	—	—	—	—
L. To give evidence of due care in the performance of one's trusteeship responsibilities	—	—	—	—	—	—
M. To evidence a responsible attitude by management	—	—	—	—	—	—
N. To insure full hospital cooperation and unrestricted access to hospital accounts, records, and personnel during the performance of an audit	—	—	—	—	—	—
O. To appraise policies and procedures to prevent illegal and unethical hospital acts	—	—	—	—	—	—
P. Other (Please specify) _____	—	—	—	—	—	—
_____	—	—	—	—	—	—

12. From the possible functions assigned in pursuit of FA/IC issues listed below, and any you may wish to add, rate those functions assigned to your FA/IC committee(s) structure, if any exists, otherwise the full board:
    (a) With respect to importance
    (b) With respect to the effectiveness with which they are performed.

PLEASE OMIT RATING ANY FUNCTION NOT PERFORMED.

Possible FA/IC Functions Assigned	(a) Importance of Assigned Functions High				Low	(b) Effectiveness of Performance High				Low
A. Related to work of independent auditors										
1. Discuss scope and timing of audit work	—	—	—	—	—	—	—	—	—	—
2. Discuss problems and experience in completing audit	—	—	—	—	—	—	—	—	—	—
3. Discuss meaning and significance of audited figures and notes thereto	—	—	—	—	—	—	—	—	—	—

Possible FA/IC Functions Assigned	(a) Importance of Assigned Functions High				Low	(b) Effectiveness of Performance High				Low
B. Related to work of internal auditors										
1. Discuss organization and independence	—	—	—	—	—	—	—	—	—	—
2. Discuss goals and plans, including nature and extent of work	—	—	—	—	—	—	—	—	—	—
3. Discuss problems and experience in completing audits	—	—	—	—	—	—	—	—	—	—
4. Discuss findings and recommendations	—	—	—	—	—	—	—	—	—	—
C. Related to hospital's system and controls										
1. Discuss effectiveness of internal control	—	—	—	—	—	—	—	—	—	—
2. Discuss effectiveness of use and control of electronic data	—	—	—	—	—	—	—	—	—	—
3. Discuss effectiveness of procedures to prevent kickbacks and conflicts of interest	—	—	—	—	—	—	—	—	—	—
D. Related to hospital's personnel										
1. Discuss adequacy of accounting and financial staff	—	—	—	—	—	—	—	—	—	—
2. Discuss adequacy of internal audit staff	—	—	—	—	—	—	—	—	—	—
E. Related to hospital's external reporting										
1. Review reports before submission to regulatory bodies (HCFA or their representative including fiscal intermediary)	—	—	—	—	—	—	—	—	—	—
2. Review financial reports before issuance	—	—	—	—	—	—	—	—	—	—
3. Review accounting principles and practices	—	—	—	—	—	—	—	—	—	—
4. Review efforts to disclose social costs and obligations	—	—	—	—	—	—	—	—	—	—
5. Review status of tax returns	—	—	—	—	—	—	—	—	—	—
F. Related to other matters										
1. Discuss fraud situations or fidelity bond losses	—	—	—	—	—	—	—	—	—	—
2. Review hospital's insurance program	—	—	—	—	—	—	—	—	—	—
3. Approve or nominate independent auditors	—	—	—	—	—	—	—	—	—	—
4. Recommend or approve compensation for independent auditors	—	—	—	—	—	—	—	—	—	—
5. Review and approve selected officers' expenses	—	—	—	—	—	—	—	—	—	—
6. Approve signatures for bank accounts and borrowing	—	—	—	—	—	—	—	—	—	—
7. Review budgets and comparisons of budgets to actual results	—	—	—	—	—	—	—	—	—	—
8. Discuss hospital efforts to comply with legal and social obligations to employees, community, and others	—	—	—	—	—	—	—	—	—	—
G. Other (Please specify)										
_____	—	—	—	—	—	—	—	—	—	—
_____	—	—	—	—	—	—	—	—	—	—

13. Have there been any significant changes in the last five years in the composition, responsibilities, or other characteristics which might describe the manner and extent to which your full board or a standing committee(s) thereof addresses FA/IC issues?

— No
— Yes (Please explain the nature of the change and the reasons)

_____

_____

14. Indicate whether you think a person possessing the combination of characteristics described in each item below should serve on a committee(s) structure to address FA/IC issues. Place your response (a, b, or c) on the line to the left of each item.

Response: (a) acceptable as a member and as a chairman
(b) acceptable as a member only but not as a chairman, or
(c) unacceptable as a member.

A member of the board of trustees who holds ...

__ 1.. some of the hospital's bonds and performs no duties other than those of a director.

__ 2.. bonds in the hospital and serves as a consultant to the hospital. The value of his bonds (including interest and principal value) exceeds the value of his fees as a consultant.

__ 3.. a substantial amount of bonds in the hospital and serves as one of the chief officers. The value of his bonds (including interest and principal value) exceeds the value of his income as an executive.

__ 4.. no bonds in the hospital and who is affiliated with the hospital as a primary insurance or securities underwriter.

__ 5.. no bonds in the hospital and who is affiliated with the hospital as a major (exceeding 10% of his sales or the hospital's purchases) supplier of goods or services.

__ 6.. no bonds in the hospital and who is affiliated with the hospital as one of its primary bankers.

15. What would you think of the idea of using personnel from the following groups to act in the capacity of an autonomous staff of technical specialists to assist non-officer trustees address FA/IC issues? Please write the letter corresponding to the idea (a, b, c, d, or e) following each of the specialists listed below. Choices of ideas are:

(a) is worthy of whole-hearted support, (b) is worthy of consideration, (c) may or may not be worthy of consideration, (d) is not worthy of any consideration, (e) should be actively opposed.

Technical Specialists	Idea
Internal Audit Staff	__
Fiscal Intermediary Auditors	__
Hospital External Attorney on Retainer	__
Medical Auditors (Internal or External PSRO)	__
Internal Attorney	__

16. Which of the following individuals, inside and outside the institution, is consulted by the board of trustees or a select committee thereof concerning FA/IC issues? Write in the approximate number of meetings during the year between the individual and the board or select committee(s) whose purpose is to address FA/IC issues. PLEASE OMIT RATING ANY INDIVIDUALS NOT CONSULTED.

Individual Job Titles	Number of Meetings
Administrator/President/Director	_____
Financial Vice President (CFO)	_____
Chief Accountant/Director of Acct.	_____
Internal Auditor	_____
Independent External Auditor (CPA)	_____
Auditing Representative for Fiscal Intermediary Medicare-Medicaid	_____
Hospital Attorney:	
Internal	_____
External	_____
Other:	
Please identify_____	_____

Thank you very much for your cooperation. Please return this completed questionnaire in the enclosed, stamped and addressed envelope.

APPENDIX B

TABLE B.1

THE FREQUENCY OF IMPORTANCE OF PURPOSES FOR ADDRESSING FA/IC ISSUES:
A SUMMARY OF RESPONSES FROM HOSPITALS HAVING AN
FA/IC BOARD COMMITTEE(S) STRUCTURE

Possible Purposes for Addressing FA/IC Issues	Importance of Purpose: Scores High 5	4	3	2	Low 1	NA	Median Score	Rank	Hospitals Having Each Purpose: n	%	Rank
A. To provide a direct and more personal contact on a regular basis between non-officer board members and:											
1. The independent auditors	41	43	64	25	53	12	2.953		226	94.96	H7
2. The internal auditors	14	14	11	13	40	146	.315	L3	92	38.65	L3
3. The financial officers of the hospital	126	53	23	11	20	5	4.556	H2	233	97.90	H1
B. Utilize a committee to relieve the board, as a whole, of details regarding:											
1. The nomination of the independent auditors	42	41	45	31	46	33	2.700	L10	205	86.13	L8
2. The arrangements for the independent audit	29	25	45	36	62	41	1.944	L6	197	82.77	L6
3. The review of the results of the independent audit	105	66	37	11	8	11	4.288	H4	227	95.38	H6
4. The review of the results of the internal audits	24	18	21	13	18	144	.326	L4	94	39.50	L4
C. Utilize a committee to provide an advisory group for:											
1. The financial officers of the hospital	92	51	41	18	25	11	3.971	H7	227	95.38	H6
2. The internal auditors	11	9	15	15	37	151	.288	L1	87	36.55	L1
3. The full board	151	41	17	5	13	11	4.712	H1	227	95.38	H6
D. To provide an additional check on financial reports before their release to the public	38	25	40	31	52	52	1.984	L7	186	78.15	L5
E. To give additional attention to the audit function performed by:											
1. The independent auditors	50	64	56	18	38	12	3.411	H9	226	94.95	H7
2. The internal auditors	13	13	19	18	24	151	.288	L1	87	36.55	L1

TABLE B.1 (Continued)

Possible Purposes for Addressing FA/IC Issues	Importance of Purpose: Scores High 5	4	3	2	Low 1	NA	Median Score	Rank	Hospitals Having Each Purpose: n	%	Rank
F. To strengthen the objectivity and independence of:											
1. The independent auditors	42	50	61	22	47	16	3.057		222	93.28	H9
2. The internal auditors	13	13	20	12	30	150	.293	L2	88	36.97	L2
G. To improve the knowledge and understanding of non-officer board members regarding:											
1. The nature, scope, and limits of the audit function	23	43	63	53	41	15	2.659	L9	223	93.67	H8
2. The existence and role of accounting and internal financial and operational controls	42	64	61	34	26	11	3.287		227	95.38	H6
3. The generally accepted accounting and reporting practices and responsibilities	24	51	61	50	41	11	2.779		227	95.38	H6
4. The financial statements and alternative sources of information	66	81	48	20	14	9	3.846	H8	229	96.22	H5
5. The hospital, its operations, and financial issues	124	68	25	7	6	8	4.540	H3	230	96.64	H4
H. To improve effectiveness of internal financial and operational control systems	37	66	72	24	27	12	3.278		226	94.96	H7
I. To give added attention to the information system and reporting practices	27	63	82	37	24	5	3.146		233	97.90	H1
J. To evaluate accounting and financial policies, procedures and personnel	48	62	61	31	28	8	3.352		230	96.64	H4
K. To participate in specific audit and review activities	14	22	44	46	84	28	1.652	L5	202	84.87	L7
L. To give evidence of due care in the performance of one's board member responsibilities	85	75	41	14	16	7	4.047	H6	231	97.06	H3

TABLE B.1 (Continued)

Possible Purposes for Addressing FA/IC Issues	Importance of Purpose: Scores High 5	4	3	2	Low 1	NA	Median Score	Rank	Hospitals Having Each Pdrpose: n	%	Rank
M. To evidence a responsible attitude by management.	96	72	41	12	11	6	4.181	H5	232	97.48	H2
N. To insure full hospital cooperation and unrestricted access to hospital accounts, records, and personnel during the performance of an audit	29	27	47	46	67	22	2.152	L8	216	90.76	L9
O. To appraise policies and procedures to prevent illegal and unethical hospital acts	50	62	61	25	31	9	3.385	H10	229	96.22	H5

TABLE B.2

THE FREQUENCY OF IMPORTANCE OF PURPOSES FOR ADDRESSING FA/IC ISSUES: A SUMMARY OF RESPONSES FROM CORPORATIONS HAVING AN AUDIT COMMITTEE

Possible Purposes Addressing FA/IC Issues	Importance of Purpose: Scores* High 5	4	3	2	Low 1	NA	Median Score	Rank	Corporations Having Each Purpose: n	%	Rank
A. To provide a direct and more personal contact on a regular basis between non-officer board members and:											
1. The independent auditors	204	22	8	2	4	8	4.892	H1	240	96.77	H2
2. The internal auditors	95	45	37	14	23	34	3.856	H8	214	86.29	
3. The financial officers of the entity	56	36	61	22	42	31	2.975	L10	217	87.5	
B. Utilize a committee to relieve the board, as a whole, of details regarding:											
1. The nomination of the independent auditors	42	24	50	26	63	43	2.192	L4	205	82.66	L7
2. The arrangements for the independent audit	43	32	59	20	49	45	2.669	L8	203	81.85	L6
3. The review of the results of the independent audit	141	44	27	6	15	15	4.621	H3	233	93.95	H4
4. The review of the results of the internal audits	74	37	44	22	32	39	3.205		209	84.27	L10
C. Utilize a committee to provide an advisory group for:											
1. The financial officers of the entity	17	23	66	29	58	55	1.879	L2	193	77.82	L2
2. The internal auditors	24	27	59	38	46	59	2.000	L3	189	76.21	L1
3. The full board	108	52	35	13	13	27	4.192	H6	221	89.11	H9
D. To provide an additional check on financial reports before their release to the public	57	31	28	30	52	50	2.233	L5	198	79.84	L4
E. To give additional attention to the audit function performed by:											
1. The independent auditors	144	61	24	9	4	6	4.639	H2	242	97.58	H1
2. The internal auditors	80	59	45	14	17	33	3.754		215	86.69	

TABLE B.2 (Continued)

Possible Purposes for Addressing FA/IC Issues	Importance of Purpose: Scores* High 5	4	3	2	Low 1	NA	Score	Rank	Corporations Having Each Purpose: n	%	Rank
F. To strengthen the objectivity and independence of:											
1. The independent auditors.	140	39	31	13	10	15	4.614	H4	233	93.95	H4
2. The internal auditors	80	35	51	18	24	40	3.324		208	83.87	L9
G. To improve the knowledge and understanding of non-officer board members regarding:											
1. The nature, scope, and limits of the audit function . .	83	59	49	12	21	24	3.805	H9	224	90.32	H6
2. The existence and role of accounting and internal financial and operational controls.	84	50	54	15	20	25	3.700		223	89.92	H7
3. The generally accepted accounting and reporting practices and responsibilities.	58	43	66	26	23	32	3.152		216	87.10	
4. The financial statements and alternative sources of information	36	36	61	42	32	41	2.648	L7	207	83.47	L8
5. The entity, its operations, and financial issues. . . .	22	31	64	32	52	47	2.281	L6	201	81.05	L5
H. To improve effectiveness of internal financial and operational control systems	51	58	71	23	21	24	3.289		224	90.32	H6
I. To give added attention to the information system and reporting practices	27	43	85	29	27	37	2.865	L9	211	85.08	
J. To evaluate accounting and financial policies, procedures and personnel	19	22	58	71	55	23	3.528		225	90.73	H5
K. To participate in specific audit and review activities. . .	15	17	39	37	88	52	1.318	L1	196	79.03	L3
L. To give evidence of due care in the performance of one's board member responsibilities	137	51	27	12	11	10	4.595	H5	238	95.97	H3

TABLE B.2 (Continued)

Possible Purposes for Addressing FA/IC Functions	Importance of Purpose: Scores* High 5	4	3	2	Low 1	NA	Median Score	Rank	Corporations Having Each Purpose: n	%	Rank
M. To evidence a responsible attitude by management.	94	57	39	14	21	23	3.974	H7	225	90.73	H5
N. To insure full cooperation and unrestricted access to accounts, records, and personnel during the performance of an audit	103	29	35	15	40	26	3.776	H10	222	89.52	H8
O. To appraise policies and procedures to prevent illegal and unethical acts	78	49	51	25	17	28	3.561		220	88.71	H10

*Underlying data were generated by Mautz and Neumann.

TABLE B.3

THE FREQUENCY OF IMPORTANCE OF FA/IC FUNCTIONS ASSIGNED: A SUMMARY OF RESPONSES FROM HOSPITALS HAVING AN FA/IC BOARD COMMITTEE(S) STRUCTURE

Possible FA/IC Functions Assigned	Importance of Functions Assigned: Scores High----------Low 5	4	3	2	1	NA	Median Score	Rank	Hospitals Pursuing Each Function: n	%	Rank
A. Related to work of independent auditors:											
1. Discuss scope and timing of audit work	32	26	38	32	73	37	1.781	L10	201	84.45	
2. Discuss problems and experience in completing the audit	34	32	59	36	50	27	2.602		211	88.66	H5
3. Discuss meaning and significance of audited figures and notes thereto	99	74	33	12	14	6	4.230	H2	232	97.48	H1
B. Related to work of internal auditors:											
1. Discuss organization and independence	14	11	24	13	31	145	.321	L3	93	39.08	L3
2. Discuss goals and plans, including nature and extent of work	12	19	19	13	29	146	.315	L2	92	38.66	L2
3. Discuss problems and experience in completing audits	10	12	23	20	25	148	.304	L1	90	37.82	L1
4. Discuss findings and recommendations	32	21	14	10	17	144	.326	L4	94	39.50	L4
C. Related to hospital's system and controls:											
1. Discuss effectiveness of internal control	47	61	59	27	19	25	3.314	H7	213	89.50	H4
2. Discuss effectiveness of use and control of electronic data	37	51	61	30	32	27	2.992	H10	211	88.66	H5
3. Discuss effectiveness of procedures to prevent kick-backs and conflicts of interest	48	43	54	24	37	32	2.981		206	86.55	H8
D. Related to hospital's personnel:											
1. Discuss adequacy of accounting and financial staff	40	44	73	34	26	21	3.021	H9	217	91.18	H3
2. Discuss adequacy of internal audit staff	17	13	18	17	35	138	.362	L5	100	42.02	L5

TABLE B.3 (Continued)

Possible FA/IC Functions Assigned	Importance of Functions Assigned: Scores High----------Low 5	4	3	2	1	NA	Median Score	Rank	Hospitals Pursuing Each Function: n	%	Rank
E. Related to hospital's external reporting:											
1. Review reports before submission to regulatory bodies (HCFA or their representative including fiscal intermediary)	12	17	21	27	108	53	1.111	L8	185	77.73	L8
2. Review financial reports before issuance	70	44	25	20	48	31	3.300	H8	207	86.97	H7
3. Review accounting principles and practices	26	30	50	42	57	33	2.273		205	86.13	H9
4. Review efforts to disclose social costs and obligations	21	25	34	40	71	47	1.525	L9	191	80.25	L10
5. Review status of tax returns	9	6	16	19	99	89	.803	L6	149	62.61	L6
F. Related to other matters:											
1. Discuss fraud situations or fidelity bond losses	29	30	38	38	52	51	1.921		187	78.57	L9
2. Review hospital's insurance program	51	61	51	21	29	25	3.363	H6	213	89.50	H4
3. Approve or nominate independent auditors	77	48	42	23	20	28	3.625	H4	210	88.24	H6
4. Recommend or approve compensation for independent auditors	44	33	43	25	51	42	2.523		196	82.35	
5. Review and approve selected officers' expenses	13	12	21	32	91	69	1.049	L7	169	71.01	L7
6. Approve signatures for bank accounts and borrowing	87	40	40	16	27	28	3.700	H3	210	88.24	H6
7. Review budgets and comparisons of budgets to actual results	149	48	20	5	7	9	4.701	H1	229	96.22	H2
8. Discuss hospital efforts to comply with legal and social obligations to employees, community, and others	63	55	47	20	19	34	3.479	H5	204	85.71	H10

TABLE B.4

THE FREQUENCY OF IMPORTANCE OF FA/IC FUNCTIONS ASSIGNED: A SUMMARY OF RESPONSES FROM CORPORATIONS HAVING AN AUDIT COMMITTEE

Possible FA/IC Functions Assigned	Importance of Functions Assigned: Scores* High 5	4	3	2	Low 1	NA	Median Score	Rank	Corporations Pursuing Each Function: n	%	Rank
A. Related to work of independent auditors:											
1. Discuss scope and timing of audit work	127	38	34	8	7	34	4.524	H1	214	86.29	H3
2. Discuss problems and experience in completing audit.	125	44	38	6	6	29	4.508	H2	219	88.31	H1
3. Discuss meaning and significance of audited figures and notes thereto	121	36	42	6	5	38	4.417	H3	210	84.68	H4
B. Related to work of internal auditors:											
1. Discuss organization and independence	83	42	46	10	18	49	3.524	H7	199	80.24	H5
2. Discuss goals and plans, including nature and extent of work	63	46	51	14	18	56	3.206	H9	192	77.42	H8
3. Discuss problems and experience in completing audits	61	36	48	11	22	70	2.938		178	71.77	
4. Discuss findings and recommendations	80	42	44	9	13	60	3.455	H8	188	75.81	
C. Related to entity's system and controls:											
1. Discuss effectiveness of internal control	113	53	38	6	5	33	4.292	H4	215	86.69	H2
2. Discuss effectiveness of use and control of electronic data	61	41	59	18	19	50	3.127		198	79.84	H6
3. Discuss effectiveness of procedures to prevent kick-backs and conflicts of interest	91	44	36	8	12	57	3.750	H5	191	77.02	H9
D. Related to entity's personnel:											
1. Discuss adequacy of accounting and financial staff	39	39	65	13	27	65	2.792		183	73.79	
2. Discuss adequacy of internal audit staff	56	51	55	15	17	54	3.191	H10	194	78.23	H7

TABLE B.4 (Continued)

Possible FA/IC Functions Assigned	Importance of Functions Assigned: Scores* High 5	4	3	2	Low 1	NA	Median Score	Rank	Corporations Pursuing Each Function: n	%	Rank
E. Related to entity's external reporting:											
1. Review reports before submission to regulatory bodies (SEC)	26	11	18	6	41	146	.349	L7	102	41.13	L7
2. Review financial reports before issuance	14	8	16	6	40	164	.256	L6	84	33.87	L6
3. Review accounting principles and practices	78	50	46	8	8	58	3.580	H6	190	76.61	H10
4. Review efforts to disclose social costs and obligations	6	2	13	8	42	177	.201	L4	71	28.63	L4
5. Review status of tax returns	16	14	31	12	35	140	.386	L9	108	43.55	L9
F. Related to other matters:											
1. Discuss fraud situations or fidelity bond losses	56	29	39	15	13	96	2.500		152	61.29	
2. Review entity's insurance program.	13	19	27	14	31	144	.361	L8	104	41.94	L8
3. Approve or nominate independent auditors	125	18	28	1	14	62	4.508	H2	186	75	
4. Recommend or approve compensation for independent auditors	44	23	37	9	31	104	1.145	L10	144	58.06	L10
5. Review and approve selected officers' expenses	8	10	13	6	40	171	.225	L5	77	31.05	L5
6. Approve signatures for bank accounts and borrowing	4	2	9	4	43	186	.167	L1	62	25	L1
7. Review budgets and comparisons of budgets to actual results	7	7	15	4	31	184	.174	L2	64	25.81	L2
8. Discuss entity's efforts to comply with legal and social obligations to employees, community, and others	9	10	12	6	31	180	.189	L3	68	27.42	L3

*Underlying data were generated by Mautz and Neumann.

TABLE B.5

THE FREQUENCY OF EFFECTIVENESS OF PERFORMANCE OF FA/IC FUNCTIONS ASSIGNED: A SUMMARY OF RESPONSES FROM HOSPITALS HAVING AN FA/IC BOARD COMMITTEE(S) STRUCTURE

Possible FA/IC Functions Assigned	Effectiveness of Performance Scores High 5	4	3	2	Low 1	NA	Median Score	Rank
A. Related to work of independent auditors:								
1. Discuss scope and timing of audit work	35	34	47	28	54	40	2.862	L10
2. Discuss problems and experience in completing audit	42	38	59	19	50	30	3.093	
3. Discuss meaning and significance of audited figures and notes thereto	83	66	47	20	14	8	4.015	H4
B. Related to work of internal auditors:								
1. Discuss organization and independence	11	13	29	11	26	148	2.776	L9
2. Discuss goals and plans, including nature and extent of work	12	17	27	11	23	148	2.907	
3. Discuss problems and experience in completing audits	11	14	25	13	24	151	2.760	L8
4. Discuss findings and recommendations	27	20	17	10	19	145	3.525	H8
C. Related to hospital's system and controls:								
1. Discuss effectiveness of internal control	37	64	56	26	28	27	3.420	H9
2. Discuss effectiveness of use and control of electronic data	34	43	66	32	35	28	3.076	
3. Discuss effectiveness of procedures to prevent kick-backs and conflicts of interest	47	34	59	27	38	33	3.136	
D. Related to hospital personnel:								
1. Discuss adequacy of accounting and financial staff	40	50	65	33	25	25	3.246	H10
2. Discuss adequacy of internal audit staff	16	18	19	14	30	141	2.737	L7

TABLE B.5 (Continued)

Possible FA/IC Functions Assigned	Effectiveness of Performance: Scores High 5	4	3	2	Low 1	NA	Median Score	Rank
E. Related to hospital's external reporting:								
1. Review reports before submission to regulatory bodies (HCFA or their representative including fiscal intermediary)	18	18	29	24	91	58	1.489	L3
2. Review financial reports before issuance	64	40	35	22	42	35	3.563	H7
3. Review accounting principles and practices	33	19	56	38	52	40	2.661	L6
4. Review efforts to disclose social costs and obligations	26	20	40	37	64	51	2.297	L4
5. Review status of tax returns	13	8	17	18	91	91	1.308	L1
F. Related to other matters:								
1. Discuss fraud situations or fidelity bond losses	28	23	40	39	51	57	2.513	L5
2. Review hospital's insurance program	55	57	48	24	26	28	3.623	H6
3. Approve or nominate independent auditors	85	40	43	18	20	32	4.050	H3
4. Recommend or approve compensation for independent auditors	46	31	36	26	53	46	2.972	
5. Review and approve selected officers' expenses	20	12	20	29	84	73	1.482	L2
6. Approve signatures for bank accounts and borrowing	101	47	27	11	23	29	4.426	H2
7. Review budgets and comparisons of budgets to actual results	135	50	22	12	9	10	4.656	H1
8. Discuss hospital efforts to comply with legal and social obligations to employees, community, and others	62	45	54	21	20	36	3.633	H5

TABLE B.6

THE FREQUENCY OF EFFECTIVENESS OF PERFORMANCE OF FA/IC FUNCTIONS ASSIGNED: A SUMMARY OF RESPONSES FROM CORPORATIONS HAVING AN AUDIT COMMITTEE

Possible FA/IC Functions Assigned	Effectiveness of Performance Scores* High 5	4	3	2	Low 1	NA	Median Score	Rank
A. Related to work of independent auditors:								
1. Discuss scope and timing of audit work.....	110	42	36	8	4	48	4.591	H2
2. Discuss problems and experience in completing audit..	106	48	36	6	6	46	4.547	H4
3. Discuss meaning and significance of audited figures and notes thereto.....	106	45	34	3	8	52	4.575	H3
B. Related to work of internal auditors:								
1. Discuss organization and independence.....	76	39	48	13	12	60	4.038	H9
2. Discuss goals and plans, including nature and extent of work.....	55	45	53	12	14	69	3.733	
3. Discuss problems and experience in completing audits.	57	39	47	11	12	82	3.833	
4. Discuss findings and recommendations.....	76	43	36	11	13	69	4.186	H6
C. Related to entity's system and controls:								
1. Discuss effectiveness of internal control.....	86	54	46	9	5	48	4.241	H5
2. Discuss effectiveness of use and control of electronic data.....	41	37	61	21	22	66	3.287	L10
3. Discuss effectiveness of procedures to prevent kick-backs and conflicts of interest.....	76	40	44	11	8	69	4.163	H7
D. Related to entity's personnel:								
1. Discuss adequacy of accounting and financial staff...	41	36	63	13	21	74	3.341	
2. Discuss adequacy of internal audit staff.....	57	45	52	14	14	66	3.744	

TABLE B.6 (Continued)

Possible FA/IC Functions Assigned	Effectiveness of Performance Scores* High 5	4	3	2	Low 1	NA	Median Score	Rank
E. Related to entity's external reporting:								
1. Review reports before submission to regulatory bodies (SEC)	26	11	18	4	32	157	3.028	L8
2. Review financial reports before issuance	13	13	16	1	33	172	2.750	L6
3. Review accounting principles and practices	72	42	40	14	11	69	4.083	H8
4. Review efforts to disclose social costs and obligations	8	4	14	5	33	184	1.470	L2
5. Review status of tax returns	18	19	26	8	28	149	3.019	L7
F. Related to other matters:								
1. Discuss fraud situations or fidelity bond losses	54	29	35	9	14	107	3.931	H10
2. Review entity's insurance program	19	18	28	8	24	151	3.089	L9
3. Approve or nominate independent auditors	115	21	26	6	7	73	4.739	H1
4. Recommend or approve compensation for independent auditors	45	19	37	12	22	113	3.405	
5. Review and approve selected officers' expenses	15	11	9	3	35	175	2.000	L3
6. Approve signatures for bank accounts and borrowing	7	2	11	4	33	191	1.364	L1
7. Review budgets and comparisons of budgets to actual results	9	8	11	6	26	188	2.167	L4
8. Discuss entity's efforts to comply with legal and social obligations to employees, community, and others	9	9	16	2	29	183	2.594	L5

*Underlying data were generated by Mautz and Neumann.

TABLE B.7

TOTAL MEMBERSHIP AND NON-OFFICER MEMBERSHIP OF FULL HOSPITAL BOARDS HAVING AN FA/IC COMMITTEE(S) STRUCTURE

	Total Membership		Non-Officer Members	
Number	No.	%	No.	%
0			8	4.1
1			2	1.0
2	1	.5	5	2.6
3			3	1.5
4	1	.5	1	.5
5	2	1.0	4	2.0
6	2	1.0	2	1.0
7	7	3.4	5	2.6
8			4	2.0
9	7	3.4	7	3.6
10	4	2.0	4	2.0
11	2	1.0	13	6.6
12	9	4.4	9	4.6
13	7	3.4	8	4.1
14	7	3.4	9	4.6
15	29	14.2	19	9.7
16	12	5.9	11	5.6
17	6	2.9	4	2.0
18	10	4.9	6	3.1
19	7	3.4	4	2.0
20	9	4.4	7	3.6
21	15	7.4	9	4.6
22	4	2.0	3	1.5
23	2	1.0	5	2.6
24	4	2.0	5	2.6
25	6	2.9	2	1.0
26	2	1.0		
27	3	1.5	2	1.0
28	5	2.5	3	1.5
29	3	1.5	5	2.6
30	5	2.5		
31	1	.5	3	1.5
32			3	1.5
33	2	1.0		
34	1	.5		
35			2	1.0
36	2	1.0	1	.5
37	2	1.0	1	.5
38	1	.5	1	.5
39	6	2.9	2	1.0

TABLE B.7 (Continued)

Number	Total Membership		Non-Officer Members	
	No.	%	No.	%
40	1	.5	1	.5
41	2	1.0	3	1.5
42	1	.5	2	1.0
43			2	1.0
44	3	1.5	1	.5
45	1	.5		
46	2	1.0		
47	1	.5	2	1.0
48	3	1.5		
49			1	.5
50	1	.5		
51	1	.5		
52			1	.5
53	1	.5		
54			1	.5
55	1	.5		

TABLE B.8

TERM OF OFFICE, AVERAGE NUMBER, AND LENGTH OF MEETINGS OF THE FULL HOSPITAL BOARDS HAVING AN FA/IC COMMITTEE(S) STRUCTURE

Number	Term of Office--Years		Average Meetings Per Year						Average Length of Meetings in Hours	
			Regular		Special		Total			
	No.	%	No.	%	No.	%	No.	%	No.	%
0	7	3.5			47	34.6				
1	22	11.0	13	7.2	38	27.9	12	6.6	30	16.0
2	31	15.5	6	3.3	29	21.3	6	3.3	101	54.0
3	113	56.5	5	2.8	6	4.4	4	2.2	47	25.1
4	9	4.5	14	7.7	8	5.9	9	4.9	4	2.1
5	8	4.0	2	1.1	1	.7	6	3.3	2	1.1
6	4	2.0	10	5.5	5	3.7	6	3.3	2	1.1
7	3	1.5	1	.6			5	2.7		
8	2	1.0	4	2.2	1	.7	4	2.2		
9	1	.5	2	1.1			2	1.1		
10			16	8.8			12	6.6	1	.5
11			10	5.5			8	4.4		
12			95	52.5			59	32.2		
13							18	9.8		
14					1	.7	15	8.2		
15							3	1.6		
16			1	.6			5	2.7		
17							1	.5		
18							5	2.7		
24			1	.6			1	.5		
26			1	.6			1	.5		
28							1	.5		

TABLE B.9

SELECTED CHARACTERISTICS OF FULL CORPORATE BOARDS*

	Membership		Non-Officer Members		Term of Office--Years		Average Meetings Per Year						Average Length of Meetings in Hours	
							Regular		Special		Total			
Number	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
0			5	1.8	2	.7			46	17.0				
1					169	62.4	6	2.2	54	19.9	1	.4	17	6.3
2	1	.4	4	1.5	2	.7	1	.4	27	10.0	1	.4	69	25.5
3	3	1.1	11	4.1	42	15.5	1	.4	2	.7	2	.7	71	26.2
4	2	.7	14	5.2	7	2.6	52	19.2	6	2.2	16	5.9	34	12.5
5	3	1.1	28	10.3	1	.4	16	5.9	1	.4	21	7.8	12	4.4
6	1	.4	25	9.2			29	10.7			28	10.3	14	5.2
7	6	2.2	29	10.7			10	3.7			19	7.0	2	.7
8	13	4.8	31	11.5			10	3.7			8	3.0	3	1.1
9	29	10.7	20	7.4			6	2.2			5	1.8		
10	18	6.6	17	6.3			20	7.4			16	5.9	1	.4
11	30	11.1	9	3.3			27	10.0			28	10.3	3	1.1
12	24	8.9	7	2.6			51	18.8			34	12.6	1	.4
13	14	5.2	5	1.8			3	1.1			16	5.9		
14	17	6.3	4	1.5							3	1.1		
15	17	6.3	2	.7										
16	12	4.4	5	1.8										
17	12	4.4	1	.4										
18	9	3.3	2	.7										
19	5	1.8	6	2.2										
20	4	1.5	1	.4									1	.4
Over 20	20	7.4	7	2.6			2	.7	1	.4	2	.7	3	1.1
No response	31	11.4	38	14.0	48	17.7	37	13.6	134	49.4	71	26.2	40	14.7

*Underlying data were generated by Mautz and Neumann.

TABLE B.10

TOTAL AND NON-OFFICER MEMBERSHIP, TERM OF OFFICE, AVERAGE NUMBER, AND LENGTH OF MEETINGS OF HOSPITAL FA/IC COMMITTEE(S) STRUCTURES

	Membership		Non-Officer Members		Term of Office--Years		Average Meetings Per Year						Average Length of Meetings in Hours	
							Regular		Special		Total			
Number	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
0			13	6.5	12	6.1	7	3.4	42	26.4	3	1.4		
1	1	.5	3	1.5	92	46.7	9	4.4	27	17	8	3.7	50	23.3
2	2	.9	14	7.0	30	15.2	11	5.4	46	28.9	8	3.7	145	67.4
3	16	7.5	30	15	50	25.4	8	3.9	16	10.1	11	5.1	15	7
4	18	8.5	19	9.5	6	3.0	24	11.8	9	5.7	17	7.8	5	2.3
5	38	17.8	24	12	3	1.5	2	1	2	1.3	11	5.1		
6	27	12.7	18	9	1	.5	10	4.9	13	18.2	18	8.3		
7	18	8.5	17	8.5	2	1	1	.5	1	.6	4	1.8		
8	23	10.8	17	8.5			4	2	1	.6	5	2.3		
9	7	3.3	7	3.5	1	.5	1	.5			2	.9		
10	13	6.1	9	4.5			8	3.9	2	1.3	7	3.2		
11	9	4.2	4	2.0			12	5.9			7	3.2		
12	12	5.6	8	4.0			92	45.1			47	21.7		
13	2	.9	3	1.5			1	.5			15	6.9		
14	5	2.3	1	.5			1	.5			22	10.1		
15	3	1.4	4	2.0			4	2			9	4.1		
16	4	1.9	1	.5			4	2			6	2.8		
17	2	.9	2	1										
18	1	.5	2	1			1	.5			10	4.6		
19	1	.5	2	1			1	.5			1	.5		
20	8	3.8	2	1							1	.5		
21														
22	1	.5									1	.5		
23	1	.5												
24							2	1			3	1.4		
25	1	.5												
52							1	.5						
58											1	.5		

TABLE B.11

SELECTED CHARACTERISTICS OF CORPORATE AUDIT COMMITTEES*

	Membership		Non-Officer Members		Term of Office--Years		Average Meetings Per Year						Average Length of Meetings in Hours	
							Regular		Special		Total			
Number	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
0			11	4.1	1	.4	4	1.5	52	19.2			1	.4
1	1	.4	1	.4	190	70.1	20	7.4	40	14.7	8	3.0	58	21.4
2	9	3.3	16	5.9	3	1.1	94	34.7	17	6.3	66	24.3	101	37.2
3	120	44.3	109	40.2	13	4.8	58	21.4	6	2.2	60	22.1	39	14.4
4	57	21.0	43	15.8	1	.4	38	14.0	5	1.8	33	12.2	17	6.3
5	31	11.4	26	9.6			1	.4	1	.4	14	5.2	3	1.1
6	7	2.6	6	2.2			5	1.8	1	.4	6	2.2	3	1.1
7	6	2.2	6	2.2										
8	5	1.8	3	1.1							1		1	.4
9	3	1.1	3	1.1									1	.4
10											1	.4		
Over 10	1	.4	1	.4			9	3.3	1	.4	9	3.3	4	1.5
No response	31	11.5	46	17.0	63	23.2	42	15.5	148	54.6	73	26.9	43	15.8

*Underlying data were generated by Mautz and Neumann.

TABLE B.12

FREQUENCY COUNTS OF CORPORATE AND HOSPITAL RESPONDENTS AS TO THE ACCEPTABILITY OF STATED ACTIVITIES AND RELATIONSHIPS FOR COMMITTEE MEMBERS ASSIGNED TO ADDRESS FA/IC ISSUES

Activity and Relationship*	Acceptable as Member and Chairman	Acceptable as Member Only	Unacceptable as Member	No Response
CORPORATIONS				
HOSPITALS				
A MEMBER OF THE BOARD OF DIRECTORS WHO HOLDS.				
A MEMBER OF THE BOARD OF TRUSTEES WHO HOLDS				
some of the company's bonds and performs no duties other than those of a director.	180	34	12	22
some of the hospital's bonds and performs no duties other then those of a director.	94	88	46	10
stock in the company and serves as a consultant to the company. The value of his stock (including dividends and capital value) exceeds the value of his fees as a consultant.	48	64	114	22
bonds in the hospital and serves as a consultant to the hospital. The value of his bonds (including interest and principal value) exceeds the value of his fees as a consultant.	16	45	167	10

TABLE B.12 (Continued)

Activity and Relationship*	Acceptable as Member and Chairman	Acceptable as Member Only	Unacceptable as Member	No Response
substantial amount of stock in the company and serves as the chief operating officer for a major division of the company. The value of his stock (including dividends and capital value) exceeds the value of his income as an executive	6	12	209	21
a substantial amount of bonds in the hospital and serves as one of the chief officers. The value of his bonds (including interest and principal value) exceeds the value of his income as an executive	19	74	134	11
no stock or bonds in the company and who is affiliated with the company's primary underwriter.	38	45	138	27
no bonds in the hospital and who is affiliated with the hospital as a primary insurance or securities underwriter.	31	85	114	8

*Underlying corporate data were generated by Mautz and Neumann.

APPENDIX C

TABLE C.1

THE FREQUENCY OF IMPORTANCE OF PURPOSES FOR ADDRESSING FA/IC ISSUES BY A SINGLE FA/IC COMMITTEE STRUCTURE OF THE HOSPITAL BOARD

Possible Purposes for Addressing FA/IC Issues	IMPORTANCE OF PURPOSE Scores High 5	4	3	2	Low 1	NA	Median Score	Rank	HOSPITALS HAVING EACH PURPOSE n	%	Rank
A. To provide a direct and more personal contact on a regular basis between non-officer trustees and:											
1. The independent auditors	10	3	15	7	12	4	2.667	L10	47	92.157	H4
2. The internal auditors	4	3	4	0	8	32	.297	L4	19	37.255	L4
3. The financial officers of the hospital	25	15	4	3	3	1	4.467	H3	50	98.039	H1
B. Utilize a committee to relieve the board of trustees, as a whole, of details regarding:											
1. The nomination of the independent auditors	5	9	8	9	11	9	2.111	L9	42	82.353	H7
2. The arrangements for the independent audit	2	8	11	8	10	12	1.938	L7	39	76.471	L6
3. The review of the results of the independent audit	17	14	11	3	2	4	3.893	H6	47	92.157	H4
4. The review of the results of the internal audits	5	3	4	2	3	34	.250	L3	17	33.333	L3
C. Utilize a committee to provide an advisory group for:											
1. The financial officers of the hospital	17	11	10	5	6	2	3.727	H7	49	96.078	H2
2. The internal auditors	2	2	2	1	8	36	.208	L1	15	29.412	L1
3. The board of trustees	29	6	4	4	5	3	4.621	H1	48	94.118	H3
D. To provide an additional check on financial reports before their release to the public	7	5	7	5	11	16	1.364	L5	35	68.627	L5
E. To give additional attention to the audit function performed by:											
1. The independent auditors	8	12	10	3	12	6	2.950		45	88.235	H5
2. The internal auditors	4	3	3	0	6	35	.229	L2	16	31.373	L2

TABLE C.1 (Continued)

Possible Purposes for Addressing FA/IC Issues	IMPORTANCE OF PURPOSE Scores High 5	4	3	2	Low 1	NA	Median Score	Rank	HOSPITALS HAVING EACH PURPOSE n	%	Rank
F. To strengthen the objectivity and independence of:											
1. The independent auditors	6	10	12	0	15	8	2.708		43	84.314	H6
2. The internal auditors	3	3	4	0	7	34	.250	L3	17	33.333	L3
G. To improve the knowledge and understanding of non-officer trustees regarding:											
1. The nature, scope, and limits of the audit function	2	12	14	9	11	3	2.679		48	94.118	H3
2. The existence and role of accounting and internal financial and operational controls	10	16	11	6	7	1	3.531	H9	50	98.039	H1
3. The generally accepted accounting and reporting practices and responsibilities	6	11	13	10	9	2	2.846		49	96.078	H2
4. The financial statements and alternative sources of information	13	15	12	6	3	2	3.667	H8	49	96.078	H2
5. The hospital, its operations, and financial issues	28	11	4	3	2	3	4.589	H2	48	94.118	H3
H. To improve effectiveness of internal financial and operational control systems	11	12	17	3	4	4	3.353	H10	47	92.157	H4
I. To give added attention to the information system and reporting practices	6	13	19	5	7	1	3.158		50	98.039	H1
J. To evaluate accounting and financial policies, procedures and personnel	9	14	11	8	6	3	3.273		48	94.118	H3
K. To participate in specific audit and review activities	3	3	11	6	19	9	1.368	L6	42	82.353	H7

TABLE C.1 (Continued)

Possible Purposes for Addressing FA/IC Issues	IMPORTANCE OF PURPOSE								HOSPITALS HAVING EACH PURPOSE		
	Scores					NA	Median Score	Rank	n	%	Rank
	High 5	4	3	2	Low 1						
L. To give evidence of due care in the performance of one's trusteeship responsibilities.....	18	17	7	4	3	2	4.059	H5	49	96.078	H2
M. To evidence a responsible attitude by management.....	24	9	11	3	2	2	4.333	H4	49	96.078	H2
N. To insure full hospital cooperation and unrestricted access to hospital accounts, records, and personnel during the performance of an audit.....	7	3	11	10	12	8	2.050	L8	43	84.314	H6
O. To appraise policies and procedures to prevent illegal and unethical hospital acts.....	9	11	15	5	8	3	3.133		48	94.118	H3

TABLE C.2

THE FREQUENCY OF IMPORTANCE OF PURPOSES FOR ADDRESSING FA/IC ISSUES BY A JOINT FA/IC COMMITTEE STRUCTURE OF THE HOSPITAL BOARD

Possible Purposes for Addressing FA/IC Issues	IMPORTANCE OF PURPOSE Scores High 5	4	3	2	Low 1	NA	Median Score	Rank	HOSPITALS HAVING EACH PURPOSE n	%	Rank
A. To provide a direct and more personal contact on a regular basis between non-officer trustees and:											
1. The independent auditors	17	20	38	14	30	6	2.829		119	95.200	H5
2. The internal auditors	3	3	4	9	25	81	.272	L3	44	35.200	L3
3. The financial officers of the hospital	68	23	14	5	12	3	4.581	H2	122	97.600	H2
B. Utilize a committee to relieve the board of trustees, as a whole, of details regarding:											
1. The nomination of the independent auditors	19	19	25	16	27	19	2.520	L8	106	84.800	L6
2. The arrangements for the independent audit	11	7	26	21	37	23	1.619	L5	102	81.600	L4
3. The review of the results of the independent audit	60	33	19	5	4	4	4.425	H4	121	96.800	H3
4. The review of the results of the internal audits	8	10	8	7	11	81	.272	L3	44	35.200	L3
C. Utilize a committee to provide an advisory group for:											
1. The financial officers of the hospital	56	25	21	6	11	6	4.240	H5	119	95.200	H5
2. The internal auditors	6	3	8	8	17	83	.253	L2	42	33.600	L2
3. The board of trustees	90	16	11	1	3	4	4.806	H1	121	96.800	H3
D. To provide an additional check on financial reports before their release to the public	21	11	27	17	27	22	2.294	L7	103	82.400	L5
E. To give additional attention to the audit function performed by:											
1. The independent auditors	29	27	33	10	20	6	3.303	H10	119	95.200	H5
2. The internal auditors	3	2	11	12	11	86	.227	L1	39	31.200	L1

TABLE C.2 (Continued)

Possible Purposes for Addressing FA/IC Issues	IMPORTANCE OF PURPOSE								HOSPITALS HAVING EACH PURPOSE		
	Scores					NA	Median Score	Rank	n	%	Rank
	High 5	4	3	2	Low 1						
F. To strengthen the objectivity and independence of:											
1. The independent auditors	24	24	38	11	21	7	3.118		118	94.400	H6
2. The internal auditors	4	3	11	7	14	86	.227	L1	39	31.200	L1
G. To improve the knowledge and understanding of non-officer trustees regarding:											
1. The nature, scope, and limits of the audit function	12	18	34	29	23	9	2.544	L9	116	92.800	H7
2. The existence and role of accounting and internal financial and operational controls	22	32	33	17	12	9	3.240		116	92.800	H7
3. The generally accepted accounting and reporting practices and responsibilities	12	26	32	24	24	7	2.734	L10	118	94.400	H6
4. The financial statements and alternative sources of information	37	45	21	11	5	6	3.933	H8	119	95.200	H5
5. The hospital, its operations, and financial issues	66	35	16	2	4	2	4.553	H3	123	98.400	H1
H. To improve effectiveness of internal financial and operational control systems	17	32	38	14	18	6	3.145		119	95.200	H5
I. To give added attention to the information system and reporting practices	13	32	43	21	14	2	3.093		123	98.400	H1
J. To evaluate accounting and financial policies, procedures and personnel	24	29	35	18	15	4	3.229		121	96.800	H3
K. To participate in specific audit and review activities	6	12	20	26	50	11	1.558	L4	114	91.200	L7

TABLE C.2 (Continued)

Possible Purposes for Addressing FA/IC Issues	IMPORTANCE OF PURPOSE Scores High 5	4	3	2	Low 1	NA	Median Score	Rank	HOSPITALS HAVING EACH PURPOSE n	%	Rank
L. To give evidence of due care in the performance of one's trusteeship responsibilities.....	42	40	22	7	10	4	3.988	H7	121	96.800	H3
M. To evidence a responsible attitude by management.....	47	43	21	6	5	3	4.140	H6	122	97.600	H2
N. To insure full hospital cooperation and unrestricted access to hospital accounts, records, and personnel during the performance of an audit.....	14	16	22	22	41	10	2.023	L6	115	92.000	H8
O. To appraise policies and procedures to prevent illegal and unethical hospital acts.....	26	31	34	15	14	5	3.338	H9	120	96.000	H4

TABLE C.3

THE FREQUENCY OF IMPORTANCE OF PURPOSES FOR ADDRESSING FA/IC ISSUES BY MULTIPLE FA/IC COMMITTEE STRUCTURES OF THE HOSPITAL BOARD

Possible Purposes for Addressing FA/IC Issues	IMPORTANCE OF PURPOSE								HOSPITALS HAVING EACH PURPOSE		
	Scores					NA	Median Score	Rank	n	%	Rank
	High 5	4	3	2	Low 1						
A. To provide a direct and more personal contact on a regular basis between non-officer trustees and:											
1. The independent auditors	14	20	11	4	11	2	3.650		60	96.774	H3
2. The internal auditors	7	8	3	4	7	33	.439	L1	29	47.774	L1
3. The financial officers of the hospital	33	15	5	3	5	1	4.561	H1	61	98.387	H2
B. Utilize a committee to relieve the board of trustees, as a whole, of details regarding:											
1. The nomination of the independent auditors	18	13	12	6	8	5	3.500		57	91.935	H6
2. The arrangements for the independent audit	16	10	8	7	15	6	2.875	L10	56	90.323	H7
3. The review of the results of the independent audit	28	19	7	3	2	3	4.342	H4	59	95.161	H4
4. The review of the results of the internal audits	11	5	9	4	4	29	1.000	L5	33	53.226	L4
C. Utilize a committee to provide an advisory group for:											
1. The financial officers of the hospital	19	15	10	7	8	3	3.700	H9	59	95.161	H4
2. The internal auditors	3	4	5	6	12	32	.469	L2	30	48.387	L2
3. The board of trustees	32	19	2	0	5	4	4.531	H2	58	93.548	H5
D. To provide an additional check on financial reports before their release to the public	10	9	6	9	14	14	1.833	L6	48	77.419	L5
E. To give additional attention to the audit function performed by:											
1. The independent auditors	13	25	13	5	6	0	3.780	H8	62	100	H1
2. The internal auditors	6	8	5	6	7	30	.643	L4	32	51.613	L3

TABLE C.3 (Continued)

Possible Purposes for Addressing FA/IC Issues	IMPORTANCE OF PURPOSE Scores High 5	4	3	2	Low 1	NA	Median Score	Rank	HOSPITALS HAVING EACH PURPOSE n	%	Rank
F. To strengthen the objectivity and independence of:											
1. The independent auditors	12	16	11	11	11	1	3.227		61	98.387	H2
2. The internal auditors	6	7	5	5	9	30	.611	L3	32	51.613	L3
G. To improve the knowledge and understanding of non-officer trustees regarding:											
1. The nature, scope, and limits of the audit function	9	13	15	15	7	3	2.900		59	95.161	H4
2. The existence and role of accounting and internal financial and operational controls	10	16	17	11	7	1	3.206		61	98.387	H2
3. The generally accepted accounting and reporting practices and responsibilities	6	14	16	16	8	2	2.813	L9	60	96.774	H3
4. The financial statements and alternative sources of information	16	21	15	3	6	1	3.786	H7	61	98.387	H2
5. The hospital, its operations, and financial issues	30	22	5	2	0	3	4.455	H3	59	95.161	H4
H. To improve effectiveness of internal financial and operational control systems	9	22	17	7	5	2	3.500		60	96.774	H3
I. To give added attention to the information system and reporting practices	8	18	20	11	3	2	3.250		60	96.774	H3
J. To evaluate accounting and financial policies, procedures and personnel	15	19	15	5	7	1	3.658	H10	61	98.387	H2
K. To participate in specific audit and review activities	5	7	13	14	15	8	2.071	L7	54	87.097	L6

TABLE C.3 (Continued)

Possible Purposes for Addressing FA/IC Issues	IMPORTANCE OF PURPOSE								HOSPITALS HAVING EACH PURPOSE		
	Scores					NA	Median Score	Rank	n	%	Rank
	High 5	4	3	2	Low 1						
L. To give evidence of due care in the performance of one's trusteeship responsibilities	25	18	12	3	3	1	4.167	H6	61	98.387	H2
M. To evidence a responsible attitude by management	25	20	9	3	4	1	4.200	H5	61	98.387	H2
N. To insure full hospital cooperation and unrestricted access to hospital accounts, records, and personnel during the performance of an audit	8	8	14	14	14	4	2.429	L8	58	93.548	H5
O. To appraise policies and procedures to prevent illegal and unethical hospital acts	15	20	12	5	9	1	3.700	H9	61	98.387	H2

TABLE C.4

THE FREQUENCY OF IMPORTANCE OF PURPOSES FOR ADDRESSING FA/IC ISSUES BY A FULL BOARD FA/IC STRUCTURE OF THE HOSPITAL

Possible Purposes for Addressing FA/IC Issues	IMPORTANCE OF PURPOSE								HOSPITALS HAVING EACH PURPOSE		
	Scores										
	High				Low	NA	Median Score	Rank	n	%	Rank
	5	4	3	2	1						
A. To provide a direct and more personal contact on a regular basis between non-officer trustees and:											
1. The independent auditors	2	2	3	3	6	8	1.167	L6	16	66.667	L5
2. The internal auditors	0	0	0	2	2	20	.100	L1	4	16.667	L1
3. The financial officers of the hospital	10	4	6	0	1	3	4.000	H2	21	87.500	H3
B. Utilize a committee to relieve the board of trustees, as a whole, of details regarding:[1]											
1. The nomination of the independent auditors						24					
2. The arrangements for the independent audit						24					
3. The review of the results of the independent audit						24					
4. The review of the results of the internal audits						24					
C. Utilize a committee to provide an advisory group for:											
1. The financial officers of the hospital						24					
2. The internal auditors						24					
3. The board of trustees						24					
D. To provide an additional check on financial reports before their release to the public	3	1	4	1	6	9	1.000	L5	15	62.500	L4
E. To give additional attention to the audit function performed by:											
1. The independent auditors	1	2	4	4	9	4	1.387	L8	20	83.333	H4
2. The internal auditors	1	0	3	0	3	17	.206	L3	7	29.167	L3

[1]Respondents were asked not to answer Section B and C if their hospitals did not have a committee structure to address FA/IC issues.

TABLE C.4 (Continued)

Possible Purposes for Addressing FA/IC Issues	IMPORTANCE OF PURPOSE								HOSPITALS HAVING EACH PURPOSE		
	Scores										
	High				Low	NA	Median Score	Rank	n	%	Rank
	5	4	3	2	1						
F. To strengthen the objectivity and independence of:											
1. The independent auditors	2	2	3	5	7	5	1.500	L9	19	79.167	H5
2. The internal auditors	0	1	2	1	2	18	.167	L2	6	25.000	L2
G. To improve the knowledge and understanding of non-officer trustees regarding:											
1. The nature, scope, and limits of the audit function	3	2	4	4	8	3	1.750	H9	21	87.500	H3
2. The existence and role of accounting and internal financial and operational controls	3	6	4	3	5	3	2.750	H6	21	87.500	H3
3. The generally accepted accounting and reporting practices and responsibilities	4	1	7	3	6	3	2.500	H8	21	87.500	H3
4. The financial statements and alternative sources of information	9	5	5	2	0	3	3.900	H3	21	87.500	H3
5. The hospital, its operations, and financial issues	14	3	3	1	0	3	4.643	H1	21	87.500	H3
H. To improve effectiveness of internal financial and operational control systems	5	0	7	4	5	3	2.500	H8	21	87.500	H3
I. To give added attention to the information system and reporting practices	5	0	10	3	5	1	2.800	H5	23	95.833	H1
J. To evaluate accounting and financial policies, procedures and personnel	2	3	8	4	6	1	2.625	H7	23	95.833	H1
K. To participate in specific audit and review activities	2	1	1	1	12	7	.917	L4	17	70.833	L6

TABLE C.4 (Continued)

Possible Purposes for Addressing FA/IC Issues	IMPORTANCE OF PURPOSE								HOSPITALS HAVING EACH PURPOSE		
	Scores					NA	Median Score	Rank	n	%	Rank
	High 5	4	3	2	Low 1						
L. To give evidence of due care in the performance of one's trusteeship responsibilities.....	9	5	3	3	1	3	3.900	H3	21	87.500	H3
M. To evidence a responsible attitude by management.....	9	6	5	2	0	2	4.000	H2	22	91.667	H2
N. To insure full hospital cooperation and unrestricted access to hospital accounts, records, and personnel during the performance of an audit.....	2	3	1	3	10	5	1.200	L7	19	79.167	H5
O. To appraise policies and procedures to prevent illegal and unethical hospital acts.....	5	5	3	4	6	1	2.833	H4	23	95.833	H1

TABLE C.5

THE FREQUENCY OF IMPORTANCE OF FA/IC FUNCTIONS UNDERTAKEN BY A SINGLE FA/IC COMMITTEE STRUCTURE OF THE HOSPITAL BOARD

Possible FA/IC Functions Assigned	IMPORTANCE OF FUNCTION								HOSPITALS HAVING EACH FUNCTION		
	Scores					NA	Median Score	Rank	n	%	Rank
	High 5	4	3	2	Low 1						
A. Related to work of independent auditors:											
1. Discuss scope and timing of audit work	10	4	3	7	17	10	1.412	L8	41	80.392	H6
2. Discuss problems and experience in completing audit	6	5	12	9	10	9	2.222		42	82.353	H5
3. Discuss meaning and significance of audited figures and notes thereto	18	17	9	2	2	3	4.059	H2	48	94.118	H1
B. Related to work of internal auditors:											
1. Discuss organization and independence	3	2	6	0	6	34	.250	L1	17	33.333	L1
2. Discuss goals and plans, including nature and extent of work	2	6	6	0	3	34	.250	L1	17	33.333	L1
3. Discuss problems and experience in completing audits.	3	3	7	1	3	34	.250	L1	17	33.333	L1
4. Discuss findings and recommendations	8	5	5	0	2	31	.323	L3	20	39.216	L3
C. Related to hospital's system and controls:											
1. Discuss effectiveness of internal control	13	11	13	4	3	7	3.385	H4	44	86.275	H3
2. Discuss effectiveness of use and control of electronic data	12	5	16	9	2	7	2.969	H8	44	86.275	H3
3. Discuss effectiveness of procedures to prevent kick-backs and conflicts of interest	16	7	9	4	5	10	3.222	H6	41	80.392	H6
D. Related to hospital's personnel:											
1. Discuss adequacy of accounting and financial staff	11	6	15	6	5	8	2.933	H9	43	84.314	H4
2. Discuss adequacy of internal audit staff	4	2	4	5	4	32	.297	L2	19	37.255	L2

TABLE C.5 (Continued)

Possible FA/IC Functions Assigned	IMPORTANCE OF FUNCTION Scores High 5	4	3	2	Low 1	NA	Median Score	Rank	HOSPITALS HAVING EACH FUNCTION n	%	Rank
E. Related to hospital's external reporting:											
1. Review reports before submission to regulatory bodies (HCFA or their representative including fiscal intermediary)	4	2	3	8	21	13	1.095	L6	38	74.510	H8
2. Review financial reports before issuance	15	8	1	4	13	10	2.125		41	80.392	H6
3. Review accounting principles and practices	7	7	7	9	11	10	2.000	L9	41	80.392	H6
4. Review efforts to disclose social costs and obligations	4	8	5	7	13	14	1.385	L7	37	72.549	L5
5. Review status of tax returns	2	1	3	4	17	24	.588	L4	27	52.941	L4
F. Related to other matters:											
1. Discuss fraud situations or fidelity bond losses	5	10	8	6	13	9	2.083	L10	42	82.353	H5
2. Review hospital's insurance program	10	10	12	2	10	7	3.042	H7	44	86.275	H3
3. Approve or nominate independent auditors	15	9	8	5	4	10	3.313	H5	41	80.392	H6
4. Recommend or approve compensation for independent auditors	6	10	9	4	10	12	2.375	H10	39	76.471	H7
5. Review and approve selected officers' expenses	3	0	7	7	20	14	1.075	L5	37	72.549	L5
6. Approve signatures for bank accounts and borrowing	16	10	7	1	8	9	3.550	H3	42	82.353	H5
7. Review budgets and comparisons of budgets to actual results	30	9	2	0	5	5	4.650	H1	46	90.196	H2
8. Discuss hospital efforts to comply with legal and social obligations to employees, community and others	8	12	12	5	4	10	3.042	7	41	80.392	H6

TABLE C.6

THE FREQUENCY OF IMPORTANCE OF FA/IC FUNCTIONS UNDERTAKEN BY A JOINT FA/IC COMMITTEE STRUCTURE OF THE HOSPITAL BOARD

Possible FA/IC Functions Assigned	IMPORTANCE OF FUNCTION Scores High 5	4	3	2	Low 1	NA	Median Score	Rank	HOSPITAL HAVING EACH FUNCTION n	%	Rank
A. Related to work of independent auditors:											
1. Discuss scope and timing of audit work	8	10	23	18	44	22	1.420	L8	103	82.400	
2. Discuss problems and experience in completing audit	10	13	33	22	31	16	2.205		109	87.200	H7
3. Discuss meaning and significance of audited figures and notes thereto	52	39	15	6	11	2	4.231	H2	123	98.400	H1
B. Related to work of internal auditors:											
1. Discuss organization and independence	2	3	9	9	21	81	.272	L4	44	35.200	L4
2. Discuss goals and plans, including nature and extent of work	2	5	8	8	20	82	.262	L3	43	34.400	L3
3. Discuss problems and experience in completing audits	2	2	9	11	17	84	.244	L1	41	32.800	L1
4. Discuss findings and recommendations	16	8	1	6	11	83	.253	L2	42	33.600	L2
C. Related to hospital's system and controls:											
1. Discuss effectiveness of internal control	17	33	31	16	14	14	3.097	H8	111	8.800	H5
2. Discuss effectiveness of use and control of electronic data	15	26	30	15	22	17	2.783	H10	108	86.400	H8
3. Discuss effectiveness of procedures to prevent kick-backs and conflicts of interest	18	24	27	12	25	19	2.741		106	84.800	H10
D. Related to hospital's personnel:											
1. Discuss adequacy of accounting and financial staff	16	20	43	21	13	12	2.884	H9	113	90.400	H3
2. Discuss adequacy of internal audit staff	3	4	10	6	21	81	.272	L4	44	35.200	L4

TABLE C.6 (Continued)

Possible FA/IC Functions Assigned	IMPORTANCE OF FUNCTION								HOSPITALS HAVING EACH FUNCTION		
	Scores High 5	4	3	2	Low 1	NA	Median Score	Rank	n	%	Rank
E. Related to hospital's external reporting:											
1. Review reports before submission to regulatory bodies (HCFA or their representative including fiscal intermediary)	5	12	10	13	52	33	1.067	L7	92	73.600	I8
2. Review financial reports before issuance	37	24	17	8	22	17	3.412	H7	108	86.400	H8
3. Review accounting principles and practices	10	13	30	21	33	18	2.048		107	85.600	H9
4. Review efforts to disclose social costs and obligations	9	10	21	24	35	26	1.563	L9	99	79.200	L9
5. Review status of tax returns	3	4	9	10	51	48	.784	L5	77	61.600	L5
F. Related to other matters:											
1. Discuss fraud situations or fidelity bond losses	13	15	18	26	19	34	1.865	L10	91	72.800	L7
2. Review hospital's insurance program	26	36	25	16	9	13	3.480	H6	112	89.600	H4
3. Approve or nominate independent auditors	38	28	22	13	9	15	3.625	H5	110	88.000	H6
4. Recommend or approve compensation for independent auditors	19	18	20	17	26	25	2.176		100	80.000	L10
5. Review and approve selected officers' expenses	5	10	10	15	43	42	.977	L6	83	66.400	L6
6. Approve signatures for bank accounts and borrowing	47	26	22	10	9	11	3.904	H3	114	91.200	H2
7. Review budgets and comparisons of budgets to actual results	80	28	11	2	2	2	4.719	H1	123	98.400	H1
8. Discuss hospital efforts to comply with legal and social obligations to employees, community, and others	39	29	26	8	6	17	3.690	H4	108	86.400	H8

TABLE C.7

THE FREQUENCY OF IMPORTANCE OF FA/IC FUNCTIONS UNDERTAKEN BY MULTIPLE FA/IC COMMITTEE STRUCTURES OF THE HOSPITAL BOARD

Possible FA/IC Functions Assigned	IMPORTANCE OF FUNCTION Scores High 5	4	3	2	Low 1	NA	Median Score	Rank	HOSPITALS HAVING EACH FUNCTION n	%	Rank
A. Related to work of independent auditors:											
1. Discuss scope and timing of audit work.....	14	12	12	7	12	5	3.083		57	91.935	H5
2. Discuss problems and experience in completing audit...	18	14	14	5	9	2	3.571	H5	60	96.774	H2
3. Discuss meaning and significance of audited figures and notes thereto.....	29	18	9	4	1	1	4.389	H2	61	98.387	H1
B. Related to work of internal auditors:											
1. Discuss organization and independence.....	9	6	9	4	4	30	.750	L3	32	51.613	L1
2. Discuss goals and plans, including nature and extent of work.....	8	8	5	5	6	30	.667	L1	32	51.613	L1
3. Discuss problems and experience in completing audits..	5	7	7	8	5	30	.700	L2	32	51.613	L1
4. Discuss findings and recommendations.....	8	8	8	4	4	30	.750	L3	32	51.613	L1
C. Related to hospitals system and controls:											
1. Discuss effectiveness of internal control.....	17	17	15	7	2	4	3.680	H4	58	93.548	H4
2. Discuss effectiveness of use and control of electronic data.....	10	20	15	6	8	3	3.433	H7	59	95.161	H3
3. Discuss effectiveness of procedures to prevent kick-backs and conflicts of interest.....	14	12	18	8	7	3	3.222		59	95.161	H3
D. Related to hospital's personnel:											
1. Discuss adequacy of accounting and financial staff....	13	18	15	7	8	1	3.500	H6	61	98.387	H1
2. Discuss adequacy of internal audit staff.....	10	7	4	6	10	25	1.100	L5	37	59.677	L2

TABLE C.7 (Continued)

Possible FA/IC Functions Assigned	IMPORTANCE OF FUNCTION Scores High 5	4	3	2	Low 1	NA	Median Score	Rank	HOSPITALS HAVING EACH FUNCTION n	%	Rank
E. Related to hospital's external reporting:											
1. Review reports before submission to regulatory bodies (HCFA or their representative including fiscal intermediary)	3	3	8	6	35	7	1.186	L7	55	88.710	H6
2. Review financial reports before issuance	18	12	7	8	13	4	3.357	H10	58	93.548	H4
3. Review accounting principles and practices	9	10	13	12	13	5	2.577	L10	57	91.935	H5
4. Review efforts to disclose social costs and obligations	8	7	8	9	23	7	1.611	L8	55	88.710	H6
5. Review status of tax returns	4	1	4	5	31	17	.952	L4	45	72.581	L3
F. Related to other matters:											
1. Discuss fraud situations or fidelity bond losses	11	5	12	6	20	8	2.000	L9	54	87.097	L5
2. Review hospital's insurance program	15	15	14	3	10	5	3.429	H8	57	91.935	H5
3. Approve or nominate independent auditors	24	11	12	5	7	3	3.864	H3	59	95.161	H3
4. Recommend or approve compensation for independent auditors	19	5	14	4	15	5	3.000		57	91.935	H5
5. Review and approve selected officers expenses	5	2	4	10	28	13	1.143	L6	49	79.032	L4
6. Approve signatures for bank accounts and borrowing	24	4	11	5	10	8	3.227		54	87.097	L5
7. Review budgets and comparisons of budgets to actual results	39	11	7	3	0	2	4.705	H1	60	96.774	H2
8. Discuss hospital efforts to comply with legal and social obligations to employees, community, and others	16	14	9	7	9	7	3.389	H9	55	88.710	H6

TABLE C.8

THE FREQUENCY OF IMPORTANCE OF FA/IC FUNCTIONS UNDERTAKEN BY A FULL BOARD FA/IC STRUCTURE OF THE HOSPITAL

Possible FA/IC Functions Assigned	IMPORTANCE OF FUNCTION Scores High 5	4	3	2	Low 1	NA	Median Score	Rank	HOSPITALS HAVING EACH FUNCTION n	%	Rank
A. Related to work of independent auditors:											
1. Discuss scope and timing of audit work.....	2	2	3	0	7	10	.786	L6	14	58.333	L5
2. Discuss problems and experience in completing audit...	2	3	3	2	5	9	1.100		15	62.500	H8
3. Discuss meaning and significance of audited figures and notes thereto.....	8	7	1	0	2	6	3.929	H2	18	75.000	H5
B. Related to work of internal auditors:											
1. Discuss organization and independence.....	0	1	2	1	3	17	.206	L2	7	29.167	L2
2. Discuss goals and plans, including nature and extent of work.....	0	2	1	0	3	18	.167	L1	6	25.000	L1
3. Discuss problems and experience in completing audits..	0	3	0	0	3	18	.167	L1	6	25.000	L1
4. Discuss findings and recommendations.....	2	3	0	0	1	18	.167	L1	6	25.000	L1
C. Related to hospital's system and controls:											
1. Discuss effectiveness of internal control.....	4	3	4	1	4	8	1.500	H10	16	66.667	H7
2. Discuss effectiveness of use and control of electronic data.....	4	3	4	3	4	6	2.167	H8	18	75.000	H5
3. Discuss effectiveness of procedures to prevent kick-backs and conflicts of interest.....	4	5	2	2	4	7	2.000	H9	17	70.833	H6
D. Related to hospital's personnel:											
1. Discuss adequacy of accounting and financial staff....	1	5	5	3	7	3	2.167	H8	21	87.500	H2
2. Discuss adequacy of internal audit staff.....	0	2	2	0	3	17	.206	L2	7	29.167	L2

TABLE C.8 (Continued)

Possible FA/IC Functions Assigned	IMPORTANCE OF FUNCTION Scores High 5	4	3	2	Low 1	NA	Median Score	Rank	HOSPITALS HAVING EACH FUNCTION n	%	Rank
E. Related to hospital's external reporting:											
1. Review reports before submission to regulatory bodies (HCFA or their representative including fiscal intermediary)	1	3	4	1	5	10	.900	L9	14	58.333	L5
2. Review financial reports before issuance	6	3	3	1	4	7	2.500	H7	17	70.833	H6
3. Review accounting principles and practices	0	1	2	2	8	11	.625	L4	13	54.167	L4
4. Review efforts to disclose social costs and obligations	2	2	1	1	9	9	.833	L7	15	62.500	H8
5. Review status of tax returns	0	0	2	0	10	12	.500	L3	12	50.000	L3
F. Related to other matters:											
1. Discuss fraud situations or fidelity bond losses	1	3	2	1	6	11	.667	L5	13	54.167	L4
2. Review hospital's insurance program	4	5	4	4	2	5	2.750	H6	19	79.167	H4
3. Approve or nominate independent auditors	4	5	6	1	4	4	3.000	H5	20	83.333	H3
4. Recommend or approve compensation for independent auditors	4	1	2	2	7	8	1.071	L10	16	66.667	H7
5. Review and approve selected officers expenses	2	2	2	1	8	9	.875	L8	15	62.500	H8
6. Approve signatures for bank accounts and borrowing	7	3	6	2	4	2	3.167	H4	22	91.167	H1
7. Review budgets and comparisons of budgets to actual results	12	2	6	1	1	2	4.500	H1	22	91.167	H1
8. Discuss hospital efforts to comply with legal and social obligations to employees, community, and others	10	2	6	1	1	4	3.500	H3	20	83.333	H3

TABLE C.9

THE EFFECTIVENESS OF PERFORMANCE OF FA/IC FUNCTIONS UNDERTAKEN BY A SINGLE FA/IC COMMITTEE STRUCTURE OF THE HOSPITAL BOARD

Possible FA/IC Functions Assigned	EFFECTIVENESS OF PERFORMANCE Scores High 5	4	3	2	Low 1	NA	Median Score	Rank
A. Related to work of independent auditors:								
1. Discuss scope and timing of audit work.....	8	5	10	6	11	11	2.805	L8
2. Discuss problems and experience in completing audit...	6	7	15	2	12	9	2.967	L9
3. Discuss meaning and significance of audited figures and notes thereto.....	15	15	12	2	4	3	3.900	H4
B. Related to work of internal auditors:								
1. Discuss organization and independence.....	3	1	7	1	3	36	3.000	L10
2. Discuss goals and plans, including nature and extent of work.....	5	3	4	1	3	35	3.500	H8
3. Discuss problems and experience in completing audits..	5	2	4	2	2	36	3.375	H10
4. Discuss findings and recommendations.....	8	4	2	2	3	32	4.125	H2
C. Related to hospital's system and controls:								
1. Discuss effectiveness of internal control.....	9	15	11	4	5	7	3.633	H6
2. Discuss effectiveness of use and control of electronic data.....	8	9	16	8	3	7	3.188	
3. Discuss effectiveness of procedures to prevent kick-backs and conflicts of interest.....	10	6	6	8	5	16	3.600	H7
D. Related to hospital's personnel:								
1. Discuss adequacy of accounting and financial staff....	12	8	10	7	4	10	3.450	H9
2. Discuss adequacy of internal audit staff.....	3	2	4	5	3	34	2.625	L7

TABLE C.9 (Continued)

Possible FA/IC Functions Assigned	EFFECTIVENESS OF PERFORMANCE Scores High 5	4	3	2	Low 1	NA	Median Score	Rank
E. Related to hospital's external reporting:								
1. Review reports before submission to regulatory bodies (HCFA or their representative including fiscal intermediary)	4	5	1	9	18	14	1.556	L3
2. Review financial reports before issuance	15	6	5	2	11	12	3.750	H5
3. Review accounting principles and practices	8	5	6	9	10	13	2.500	L5
4. Review efforts to disclose social costs and obligations	7	6	5	7	11	15	2.500	L5
5. Review status of tax returns	2	3	1	5	16	24	1.344	L2
F. Related to other matters:								
1. Discuss fraud situations or fidelity bond losses	3	6	8	12	10	12	2.292	L4
2. Review hospital's insurance program	7	11	11	3	11	8	3.182	
3. Approve or nominate independent auditors	15	6	10	4	4	12	3.750	H5
4. Recommend or approve compensation for independent auditors	6	6	7	4	14	14	2.571	L6
5. Review and approve selected officers expenses	2	2	3	6	23	15	1.283	L1
6. Approve signatures for bank accounts and borrowing	17	10	4	2	9	9	4.100	H3
7. Review budgets and comparisons of budgets to actual results	27	11	2	1	6	4	4.630	H1
8. Discuss hospital efforts to comply with legal and social obligations to employees, community, and others	10	7	10	8	6	10	3.150	

TABLE C.10

THE EFFECTIVENESS OF PERFORMANCE OF FA/IC FUNCTIONS UNDERTAKEN BY A JOINT FA/IC COMMITTEE STRUCTURE OF THE HOSPITAL BOARD

Possible FA/IC Functions Assigned	EFFECTIVENESS OF PERFORMANCE Scores High 5	4	3	2	Low 1	NA	Median Score	Rank
A. Related to work of independent auditors:								
1. Discuss scope and timing of audit work.....	13	14	23	17	33	25	2.500	L7
2. Discuss problems and experience in completing audit...	17	16	31	14	28	19	2.855	
3. Discuss meaning and significance of audited figures and notes thereto.....	44	35	22	12	8	4	4.029	H4
B. Related to work of internal auditors:								
1. Discuss organization and independence.....	3	5	11	5	19	82	2.000	L5
2. Discuss goals and plans, including nature and extent of work.....	4	7	11	4	16	83	2.591	L9
3. Discuss problems and experience in completing audits..	3	5	12	3	17	85	2.500	L7
4. Discuss findings and recommendations.....	14	9	5	3	11	83	3.722	H7
C. Related to hospital's system and controls:								
1. Discuss effectiveness of internal control.....	19	30	28	13	20	15	3.286	H9
2. Discuss effectiveness of use and control of electronic data.....	19	18	33	14	23	18	3.000	
3. Discuss effectiveness of procedures to prevent kick-backs and conflicts of interest.....	21	17	29	13	25	20	3.000	
D. Related to hospital's personnel:								
1. Discuss adequacy of accounting and financial staff....	19	25	33	20	15	13	3.163	H10
2. Discuss adequacy of internal audit staff.....	6	7	6	4	21	81	1.750	L4

TABLE C.10 (Continued)

Possible FA/IC Functions Assigned	EFFECTIVENESS OF PERFORMANCE Scores High 5	4	3	2	Low 1	NA	Median Score	Rank
E. Related to hospital's external reporting:								
1. Review reports before submission to regulatory bodies (HCFA or their representative including fiscal intermediary)	9	10	16	9	45	36	1.489	L2
2. Review financial reports before issuance	32	25	19	11	19	19	3.660	H8
3. Review accounting principles and practices	15	10	28	20	32	20	2.518	L8
4. Review efforts to disclose social costs and obligations	10	7	23	24	33	28	2.146	L6
5. Review status of tax returns	5	4	10	9	48	49	1.292	L1
F. Related to other matters:								
1. Discuss fraud situations or fidelity bond losses	16	11	22	19	22	35	2.682	L10
2. Review hospital's insurance program	33	32	23	16	7	14	3.797	H6
3. Approve or nominate independent auditors	43	25	21	11	9	16	4.040	H3
4. Recommend or approve compensation for independent auditors	21	18	20	17	23	26	2.975	
5. Review and approve selected officers' expenses	11	9	11	13	38	43	1.731	L3
6. Approve signatures for bank accounts and borrowing	57	30	15	5	7	11	4.500	H2
7. Review budgets and comparisons of budgets to actual results	73	27	13	5	3	4	4.671	H1
8. Discuss hospital efforts to comply with legal and social obligations to employees, community, and others	36	28	29	6	8	18	3.875	H5

TABLE C.11

THE EFFECTIVENESS OF PERFORMANCE OF FA/IC FUNCTIONS UNDERTAKEN BY MULTIPLE COMMITTEE STRUCTURES OF THE HOSPITAL BOARD

Possible FA/IC Functions Assigned	EFFECTIVENESS OF PERFORMANCE Scores High 5	4	3	2	Low 1	NA	Median Score	Rank
A. Related to work of independent auditors:								
1. Discuss scope and timing of audit work.....	14	15	14	5	10	4	3.500	H7
2. Discuss problems and experience in completing audit...	19	15	13	3	10	2	3.767	H5
3. Discuss meaning and significance of audited figures and notes thereto.....	24	16	13	6	2	1	4.094	H4
B. Related to work of internal auditors:								
1. Discuss organization and independence.....	5	7	11	5	4	30	3.136	
2. Discuss goals and plans, including nature and extent of work.....	3	7	12	6	4	30	3.000	L8
3. Discuss problems and experience in completing audits..	3	7	9	8	5	30	2.833	L6
4. Discuss findings and recommendations.....	5	7	10	5	5	30	3.100	L9
C. Related to hospital's system and controls:								
1. Discuss effectiveness of internal control.....	9	19	17	9	3	5	3.471	H8
2. Discuss effectiveness of use and control of electronic data.....	7	16	17	10	9	3	3.118	L10
3. Discuss effectiveness of procedures to prevent kick-backs and conflicts of interest.....	10	12	22	8	7	3	3.159	
D. Related to hospital's personnel:								
1. Discuss adequacy of accounting and financial staff....	9	17	22	6	6	2	3.318	H10
2. Discuss adequacy of internal audit staff.....	7	9	9	5	6	26	3.278	

TABLE C.11 (Continued)

Possible FA/IC Functions Assigned	EFFECTIVENESS OF PERFORMANCE Scores High 5	4	3	2	Low 1	NA	Median Score	Rank
E. Related to hospital's external reporting:								
1. Review reports before submission to regulatory bodies (HCFA or their representative including fiscal intermediary)	5	3	12	6	28	8	1.464	L2
2. Review financial reports before issuance	4	12	9	11	9	17	3.227	
3. Review accounting principles and practices	10	4	22	9	10	7	2.886	L7
4. Review efforts to disclose social costs and obligations	9	7	12	6	20	8	2.583	L5
5. Review status of tax returns	6	1	6	4	27	18	1.315	L1
F. Related to other matters:								
1. Discuss fraud situations or fidelity bond losses	9	6	10	8	19	10	2.375	L4
2. Review hospital's insurance program	15	14	14	5	8	6	3.571	H6
3. Approve or nominate independent auditors	27	9	12	3	7	4	4.278	H3
4. Recommend or approve compensation for independent auditors	19	7	9	5	16	6	3.278	
5. Review and approve selected officers' expenses	7	1	6	10	23	15	1.550	L3
6. Approve signatures for bank accounts and borrowing	27	7	8	4	7	9	4.519	H2
7. Review budgets and comparisons of budgets to actual results	35	12	7	6	0	2	4.643	H1
8. Discuss hospital efforts to comply with legal and social obligations to employees, community, and others	16	10	15	7	6	8	3.433	H9

TABLE C.12

THE EFFECTIVENESS OF PERFORMANCE OF FA/IC FUNCTIONS UNDERTAKEN BY A FULL BOARD FA/IC STRUCTURE OF THE HOSPITAL

Possible FA/IC Functions Assigned	EFFECTIVENESS OF PERFORMANCE Scores High 5	4	3	2	Low 1	NA	Median Score	Rank
A. Related to work of independent auditors:								
1. Discuss scope and timing of audit work.....	3	4	2	1	4	10	3.500	H6
2. Discuss problems and experience in completing audit..	3	3	2	4	3	9	2.750	L6
3. Discuss meaning and significance of audited figures and notes thereto.....	6	3	7	0	2	6	3.500	H6
B. Related to work of internal auditors:								
1. Discuss organization and independence.....	0	1	3	0	3	17	2.667	L5
2. Discuss goals and plans, including nature and extent of work.....	0	2	1	0	3	18	1.500	L3
3. Discuss problems and experience in completing audits.	0	2	1	0	3	18	1.500	L3
4. Discuss findings and recommendations.....	2	2	0	0	2	18	4.000	H1
C. Related to hospital's system and controls:								
1. Discuss effectiveness of internal control.....	4	5	2	1	4	8	3.700	H4
2. Discuss effectiveness of use and control of electronic data.....	3	4	6	1	4	6	3.167	H10
3. Discuss effectiveness of procedures to prevent kick-backs and conflicts of interest.....	2	6	5	0	4	7	3.400	H7
D. Related to hospital's personnel:								
1. Discuss adequacy of accounting and financial staff...	1	6	5	4	4	4	2.900	L9
2. Discuss adequacy of internal audit staff.....	0	3	0	1	2	18	2.500	L4

TABLE C.12 (Continued)

Possible FA/IC Functions Assigned	EFFECTIVENESS OF PERFORMANCE Scores High 5	4	3	2	Low 1	NA	Median Score	Rank
E. Related to hospital's external reporting:								
1. Review reports before submission to regulatory bodies (HCFA or their representative including fiscal intermediary)	1	3	4	1	5	10	2.750	L6
2. Review financial reports before issuance	6	2	3	2	4	7	3.333	H8
3. Review accounting principles and practices	1	1	3	1	7	11	1.429	L2
4. Review efforts to disclose social costs and obligations	1	2	3	1	7	10	1.500	L3
5. Review status of tax returns	1	0	2	1	8	12	1.250	L1
F. Related to other matters:								
1. Discuss fraud situations or fidelity bond losses	3	3	2	1	4	11	3.250	H9
2. Review hospital's insurance program	4	6	5	3	1	5	3.583	H5
3. Approve or nominate independent auditors	6	7	4	1	2	4	3.929	H2
4. Recommend or approve compensation for independent auditors	4	2	3	0	7	8	2.833	L8
5. Review and approve selected officers' expenses	3	1	5	1	5	9	2.800	L7
6. Approve signatures for bank accounts and borrowing	8	3	7	1	3	2	3.500	H6
7. Review budgets and comparisons of budgets to actual results	10	2	9	0	1	2	4.000	H1
8. Discuss hospital efforts to comply with legal and social obligations to employees, community, and others	7	5	7	0	1	4	3.900	H3

TABLE C.13

NUMBER OF YEARS HOSPITAL BOARDS OF TRUSTEES USED THEIR PRESENT BOARD STRUCTURE TO ADDRESS FA/IC ISSUES

Number of Years	Committee Structures			Full Board
	Single	Joint	Multiple	
1	0	4	1	0
2	1	4	4	1
3	1	8	5	1
4	2	4	2	1
5	6	7	7	1
6	3	9	4	1
7	2	2	2	0
8	4	5	5	0
9	0	1	0	0
10	8	23	13	3
11	0	3	0	1
12	1	3	1	0
13	0	3	1	0
14	0	1	0	0
15	1	9	2	1
16	1	2	1	0
17	0	2	0	0
20	5	4	4	1
21	0	1	0	0
22	2	0	0	0
23	0	0	0	1
25	5	3	5	5
30	1	4	1	1
33	0	1	0	0
35	1	0	0	0
40	0	1	0	1
50	1	3	0	1
58	0	0	0	1

TABLE C.14

FREQUENCY OF TOTAL MEMBERSHIP AND NON-OFFICER MEMBERSHIP OF THE FULL HOSPITAL BOARD: CLASSIFIED BY BOARD STRUCTURE USED TO ADDRESS FA/IC ISSUES

	Total Membership				Total Non-Officer Members			
	Committee Structures			Full	Committee Structures			Full
Number	Single	Joint	Multiple	Board	Single	Joint	Multiple	Board
0					3	3	2	3
1					1	1		
2	1				1	3	1	
3					2	1		1
4		1		1		1		
5		2		1	2	2		2
6		2		3		2		4
7	2	4	1	6		4	1	1
8						4		1
9	2	5		2	1	6		1
10		4		1		2	2	
11	1	1		1	6	5	2	2
12	3	5	1	1		6	3	1
13		5	2	1	3	4	1	
14	2	4	1	1	2	5	2	1
15	8	16	5	1	5	12	2	
16	3	6	3		4	5	2	1
17	1	5		1		3	1	
18	2	6	2		1	4	1	
19	2	4	1		2	2		
20	3	4	2			6	1	
21	2	9	4			3	6	
22	1	2	1	1		1	2	
23			2			3	2	
24		3	1			5		
25		3	3		1	1		
26		1	1					
27		3				1	1	
28		3	2			1	2	
29		2	1		1	2	2	
30	1	2	2					
31		1				2	1	
32						1	2	
33	1		1					
34		1						
35					1		1	
36		1	1	1			1	1

TABLE C.14 (Continued)

Number	Total Membership				Total Non-Officer Members			
	Committee Structures			Full Board	Committee Structures			Full Board
	Single	Joint	Multiple		Single	Joint	Multiple	
38			2				1	
39			1				1	
40	2	2	2		1		1	
41			1				1	1
42		1	1		1	1	1	
43	1				1	1		
44						2		
45		2	1			1		
46	1							
47	1		1					
48		1			1		1	
50	1	1	1					
54							1	
55			1					
58		1						
61					1			
67	1							
70							1	
75			1					
80								1
83				1				

TABLE C.15

FREQUENCY OF TERM OF OFFICE IN YEARS AND AVERAGE NUMBER OF MEETINGS PER YEAR OF THE FULL HOSPITAL BOARD: CLASSIFIED BY BOARD STRUCTURE USED TO ADDRESS FA/IC ISSUES

	Term of Office in Years				Average Meetings Per Year											
					Regular				Special				Total			
	Committee Structures			Full	Committee Structures			Full	Committee Structures			Full	Committee Structures			Full
No.	Single	Joint	Multiple	Board	Single	Joint	Multiple	Board	Single	Joint	Multiple	Board	Single	Joint	Multiple	Board
0	1	2	4	1					8	28	11	5				
1	4	14	4	1	3	8	2	3	10	21	7	1	3	8	1	2
2	5	21	5	4		5	1		7	16	6	2		4	2	1
3	27	57	29	7	1	4			2	3	1	1	2	2		
4	1	5	3	1	4	5	5	2	1	4	3		3	3	3	1
5	2	5	1	1	1	1					1			6		
6	1	2	1		1	5	4		1	2	2		1	2	3	
7	1	1	1	1			1						2	2	1	
8		1	1	1	1	2	1	1		1		1		4		
9		1			1	1								1	1	
10					3	9	4						4	4	4	
11					2	5	3	2						5	3	1
12				1	21	51	23	13					11	34	14	12
13													6	7	5	
14										1			3	10	2	1
15													1	2		
16							1						1	2	2	
17															1	
18													1	2	2	
20								1								
23								1								1
24							1								1	
25																1
26						1								1		
28															1	
32												1				

TABLE C.16

FREQUENCY OF AVERAGE LENGTH OF MEETINGS IN HOURS OF THE FULL HOSPITAL BOARD: CLASSIFIED BY BOARD STRUCTURE USED TO ADDRESS FA/IC ISSUES

	Average Length of Meetings in Hours			
	Committee Structures			
Number	Single	Joint	Multiple	Full Board
1	4	15	11	2
2	21	51	29	13
3	10	32	5	8
4	1	2	1	
5		2		
6	1		1	
10			1	

TABLE C.17

EXISTENCE OF RENEWABLE TERMS OF OFFICE FOR THE BOARD AND FA/IC COMMITTEE(S) STRUCTURE: CLASSIFIED BY BOARD STRUCTURE USED TO ADDRESS FA/IC ISSUES

	Board of Trustee Responses								FA/IC Committee Responses					
	Committee Structures								Committee Structures					
	Single		Joint		Multiple		Full Board		Single		Joint		Multiple	
Response	n	%	n	%	n	%	n	%	n	%	n	%	n	%
Yes	38	95.0	98	89.1	44	91.7	15	83.3	40	95.2	99	93.4	45	100.0
No	2	5.0	12	10.9	4	8.3	3	16.7	2	4.8	7	6.6	0	0
Total	140	100.0	110	100.0	48	100.0	18	100.0	42	100.0	106	100.0	45	100.0

TABLE C.18

FREQUENCY OF TOTAL AND NON-OFFICER MEMBERSHIP AND TERM OF OFFICE IN YEARS OF HOSPITAL BOARD FA/IC COMMITTEE(S) STRUCTURE

	Total Membership			Non-Officer Membership			Term of Office in Years		
	Committee Structures			Committee Structures			Committee Structures		
Number	Single	Joint	Multiple	Single	Joint	Multiple	Single	Joint	Multiple
0				3	9	1	2	6	4
1		1		1	2		23	51	18
2	1	1		4	7	3	8	16	8
3	6	8	2	12	17	1	10	25	15
4	10	8		6	10	3		4	2
5	11	24	3	9	12	3		2	1
6	5	15	7	2	13	3	1		
7	2	15	1	1	14	2	1	1	
8	4	14	5	1	11	5			
9	1	5	1	1	4	2		1	
10	3	7	3	1	3	5			
11	1	5	3			4			
12	3	4	5	2	3	3			
13			2	1		2			
14		1	4		1				
15		2	1		1	3			
16	1	1	2			1			
17			2			2			
18			1			2			
19			1			2			
20			8	1		1			

TABLE C.18 (Continued)

	Total Membership			Non-Officer Membership			Term of Office in Years		
	Committee Structures			Committee Structures			Committee Structures		
Number	Single	Joint	Multiple	Single	Joint	Multiple	Single	Joint	Multiple
22	1								
23			1						
25			1						

TABLE C.19

FREQUENCY OF THE NUMBER AND LENGTH OF MEETINGS OF HOSPITAL FA/IC COMMITTEE(S) STRUCTURE

	Average Meetings Per Year									Average Length of Meetings in Hours		
	Regular			Special			Total					
	Committee Structures			Committee Structures			Committee Structures			Committee Structures		
Number	Single	Joint	Multiple	Single	Joint	Multiple	Single	Joint	Multiple	Single	Joint	Multiple
0	1	3	3	5	29	8		2	1			
1	2	7		11	11	5	2	6		14	28	8
2	4	4	3	14	23	9	2	6		30	75	40
3	1	7		3	7	6	3	7	1	4	6	5
4	8	10	6	1	6	2	4	9	4		2	3
5		2			2		2	7	2			
6	3	6	1	2	6	5	7	7	4			
7			1			1		1	3			
8		3	1			1		3	2			
9	1						1	1				
10	4	3	1			2	4	1	2			
11	3	8	1				1	6				
12	18	53	21				10	27	10			
13			1				5	7	3			
14			1				4	13	5			
15			4				1	2	6			
16			4					3	3			
18			1				1	5	4			
19			1						1			
20									1			
22									1			
24			2						3			
52	1											
58							1					

TABLE C.20

EXISTENCE OF OFFICER TRUSTEES ON FA/IC COMMITTEES

Type of Response	Number of Responses					
	Committee Structures					
	Single		Joint		Multiple	
	n	%	n	%	n	%
Yes	26	51.0	56	47.9	31	51.7
No	25	49.0	61	52.1	29	48.3
Total	51	100.0	117	100.0	60	100.0

TABLE C.21

FREQUENCY OF MEETINGS OF THE ADMINISTRATOR AND THE FINANCIAL VICE PRESIDENT WITH THE HOSPITAL BOARD STRUCTURES DESIGNATED TO ADDRESS FA/IC ISSUES

	Administrator/President				Financial Vice President (CFO)			
Number of Meetings	Committee Structures			Full Board	Committee Structures			Full Board
	Single	Joint	Multiple		Single	Joint	Multiple	
1	1	3	1	1	1	4	0	1
2	2	3	1	1	3	4	1	2
3	3	6	0	0	0	5	0	0
4	4	5	2	1	3	4	1	1
5	2	2	2	0	2	2	0	0
6	4	6	0	0	3	9	2	1
7	0	0	1	0	0	0	1	0
8	0	2	1	1	0	1	1	1
9	1	0	0	0	1	1	0	0
10	3	3	2	0	2	3	1	1
11	2	6	0	1	2	7	0	1
12	15	45	11	13	15	43	17	10
13	3	4	3	0	4	4	3	0
14	1	6	3	0	2	7	3	0
15	2	5	7	1	1	8	8	1
16	0	4	6	0	1	4	6	0
18	0	2	5	0	0	5	3	0
19	0	0	2	0	0	0	2	0
20	2	4	3	1	3	2	4	0
23	0	2	0	0	0	2	1	0
24	1	4	3	0	2	2	1	0
25	0	1	1	1	0	2	1	1
26	1	0	0	0	1	0	0	0
30	0	2	1	0	0	1	1	0
36	0	1	0	0				
40	2	0	2	0	0	0	1	0
48					0	1	0	0
50	0	1	0	0	0	1	0	0
52	1	0	0	0	1	0	0	0

TABLE C.22

FREQUENCY OF MEETINGS OF THE CHIEF ACCOUNTANT AND THE INTERNAL AUDITOR WITH THE HOSPITAL BOARD STRUCTURES DESIGNATED TO ADDRESS FA/IC ISSUES

Number of Meetings	Chief Accountant				Internal Auditor			
	Committee Structures			Full Board	Committee Structures			Full Board
	Single	Joint	Multiple		Single	Joint	Multiple	
1	1	5	0	0	2	7	0	0
2	0	6	5	2	3	1	7	1
3	1	6	6	0	0	0	2	0
4	1	1	1	0	1	1	4	0
5	0	1	3	0	0	0	2	0
6	2	4	1	0	1	1	1	0
7	0	1	0	0				
8	1	1	1	0	0	0	1	0
10	3	3	1	0	0	0	1	0
11	0	2	0	0				
12	6	11	8	2	1	3	1	0
13	0	2	1	0				
14	1	2	0	0	0	1	0	0
15	0	0	2	0	0	1	1	0
16	0	1	1	0	0	0	1	0
18	0	1	0	0				
30	0	0	1	0				
52	1	0	0	0				

TABLE C.23

FREQUENCY OF MEETINGS OF THE INDEPENDENT AUDITOR (CPA) AND THE FISCAL INTERMEDIARY AUDITOR WITH THE HOSPITAL BOARD STRUCTURE DESIGNATED TO ADDRESS FA/IC ISSUES

Number of Meetings	Independent Auditor (CPA)				Fiscal Intermediary Auditor			
	Committee Structures			Full Board	Committee Structures			Full Board
	Single	Joint	Multiple		Single	Joint	Multiple	
1	15	61	12	10	4	9	5	1
2	16	32	22	4	1	1	0	1
3	3	13	13	0	1	0	0	0
4	3	3	6	0	0	0	1	1
5	1	0	3	0				
6	1	1	0	0				

TABLE C.24

FREQUENCY OF MEETINGS OF THE INTERNAL AND EXTERNAL HOSPITAL ATTORNEY WITH THE HOSPITAL BOARD STRUCTURE DESIGNATED TO ADDRESS FA/IC ISSUES

Number of Meetings	Internal Hospital Attorney				External Hospital Attorneys			
	Committee Structures			Full Board	Committee Structures			Full Board
	Single	Joint	Multiple		Single	Joint	Multiple	
1	0	6	1	0	6	13	6	4
2	1	2	1	0	8	13	4	2
3					0	2	3	1
4					1	3	4	2
5	1	1	0	0	0	5	2	0
6	0	1	0	0	2	6	3	0
7					0	0	1	0
8					1	2	0	0
10	0	0	1	0	0	3	1	0
11	1	0	0	0	0	1	0	0
12	0	2	2	1	4	10	7	1
13	0	0	1	0				
15					0	1	0	0
16					0	1	1	0
18					0	0	1	0
24					0	0	1	0
25					0	2	0	0
30	0	0	1	0				
40					1	0	0	0

TABLE C.25

EXISTENCE OF AN INTERNAL AUDIT FUNCTION
WITHIN THE HOSPITAL

Type of Response	Committee Structures							
	Single		Joint		Multiple		Board	
	n	%	n	%	n	%	n	%
Yes	24	47	55	44	37	60	12	50
No	27	53	70	56	25	40	12	50
Total	51	100	125	100	62	100	24	100

VITA

The son of Frank and Margaret Gavin, Thomas A. Gavin was born in Jersey City, New Jersey. He graduated from St. Paul's Grammar School and Seton Hall Preparatory School. Mr. Gavin went on to receive an undergraduate degree from Seton Hall University and a Master of Business Administration degree from the University of Missouri. He is a licensed Certified Public Accountant in Tennessee.

Mr. Gavin was associated with the public school system of Jersey City, New Jersey for two years and Arthur Young & Company, Certified Public Accountants, for one year before joining the business administration faculty at The University of Tennessee at Chattanooga. He took a leave to pursue doctoral studies in accounting at The University of Tennessee, Knoxville. He was a Doctoral Consortium Fellow representing The University of Tennessee at the 1978 Consortium co-sponsored by the American Accounting Association and Deloitte Haskins & Sells. Mr. Gavin returned to the Chattanooga campus of The University of Tennessee to teach and write his dissertation. He is currently Director of Education for Joseph Decosimo and Company, Certified Public Accountants, headquartered in Chattanooga.

Professionally, Mr. Gavin is a member of the American Institute of Certified Public Accountants, the American Accounting Association, the National Association of Accountants, and the Hospital Financial Management Association. He holds membership in Beta Alpha Psi, national accounting honorary, and Omicron Delta Epsilon, a national economics

honorary. In 1981, he attended the Trueblood Seminar co-sponsored by the American Accounting Association and Touche Ross & Co.

He and his wife, the former Madeleine R. Gougion, have four children: Cara, Colleen, Claire, and Brendan.