
Letters To The Auditor



By John Landreth, CPA

Welcome to this issue of **Letters to the Auditor**.

It is the last day of October as I write this column and these surely are scary times. All kinds of strange, ghostly characters are appearing at our door greeting us and asking for things. I am sure that you can guess what's happening. You are correct, it's election time! This is a great lead-in to our first letter...

Dear Letters To The Auditor,

It's election time and our not-for-profit hospital is humming with election talk. We live in a swing state, one of those hotly contested states so our television is filled with political advertisements and a presidential candidate is in town almost every day.

I received a funny email from one of our hospital's legal staff. It was a global email to all of our employees. It encouraged our employees to vote and talked about judicial elections. It referred our employees to go to a website where our local bar association had rated all candidates in a voter guide for judicial candidates. I printed it out and took it home to share with my wife.

My wife's a lawyer and when I showed it to her, she said that hospitals can't endorse political candidates. We had an interesting dinnertime discussion about whether a "yes" or "no" on a judge returning to the bench is the same as an endorsement for a presidential candidate.

Isn't she stretching the interpretation of the rules here a bit? I know she's a lawyer, but jeez. Can you help bring domestic tranquility back to our home? What's the real deal?

Signed,

Dinnertime Differences

Dear Dinnertime Differences,

We are all familiar with the IRS prohibitions against not-for-profit charity hospitals engaging in or incurring expenses in support of political organizations or candidates.

501(c) (3) organizations that are exempt are prohibited from directly or indirectly participating or intervening in any political campaign on behalf of, or in opposition to, any candidate for political office. Charities, educational institutions, and religious organizations, including churches are included in this covered group.

Tax-exempt charitable organizations may support and encourage people to participate in the electoral process. They may sponsor debates, hold forums to educate voters, conduct voter registration, or get out the vote drives. They may even distribute voter guides.

However, (this is the big catchall), if any of these activities shows a preference for or against a certain candidate or party, it becomes a prohibited activity. Engaging in any activity that may be beneficial or detrimental for or against a particular

candidate is prohibited. Finally, guides or activities that encourage people to vote for or against a particular candidate based upon non-partisan criteria (like a local bar association's qualified list), are prohibited.

So it looks like your spouse is correct. Any kind of statements or actions in support of a candidate is prohibited. I wonder what will be the most difficult conversation for you, admitting to your wife, a lawyer that she is correct, or talking to your legal counsel and telling them that they are wrong. Good luck!!

Our second letter comes from an auditor who's concerned about a crook in his house...

Dear Letters To The Auditor,

It was an open and closed investigation. One of our hospital cashier's cash bank was short. We performed a surprise weekend count of our cashier's cash banks. They are imprest balance accounts. All set at \$500.

We counted the banks and she was short by \$300. The money was supposed to be there.

When our security department interviewed her, eventually she admitted that she needed the money for some gambling debts. Her supervisor was very upset. This employee had been a long-time employee. She had eight years with our hospital.

We wrote up our work papers, returned to our offices, and went back

to our other audit projects confident that things would get taken care of. A few weeks later, after lunch, I stopped by the cashier to buy some bus tickets. Lo and behold, the cashier was back!

I immediately contacted the manager and talked to her. The manager said that this was a mistake in judgment. The employee was under great stress and acted irrationally. The employee was only borrowing the money for the weekend. The employee "did not recall" doing this in the past. Although, the supervisor had no reason to say that it had not happened before, she trusted that the employee was telling the truth. I asked the manager if there were additional controls put into place to monitor this employee and she said that there were none. The employee might think that we were not trusting her and she might be insulted.

Later, I talked to Human Resources. They first said that how this matter was resolved was none of my business. When I persisted, they gave me some information. They stated that this was a "management" decision. Managers in our institution have the responsibility to hire and fire. It is their "call". Human Resources said that managers are paid to handle the risks of their department.

This seemed like an open and shut case. I'm also wondering how much leeway do we allow managers to accept risks for the organization. What do you think?

Signed,

Another Day In Paradise.

Dear Another Day,

There are a few issues missing from your facts, let's discuss these first.

Does your hospital conduct criminal background checks for new employees? In like manner, do you conduct checks for employees on the federally sanctioned sites? If you don't, you should. Possibly, this employee may have a previous record

of theft that you might not have been aware of. If your human resource policies require employees to report criminal convictions at hire or during their employment, there might be some other factors to address with this person.

You also don't mention whether the employee was counseled and possibly could be in some program that would help her with her gambling problem. Your human resources staff will tell you that the manager is not an expert in this area and cannot make a knowledgeable assessment based upon their judgment as to whether gambling is a problem for that employee. Gambling can be an illness, and should be diagnosed and treated professionally. At a minimum, you should make sure that this was addressed.

Now, let's assume both of the above have been handled appropriately, let's talk about your problem. You have a very legitimate concern. You have an admitted thief who may have "borrowed" money from her bank in the past but "could not recall". You have very little assurances that this won't happen again. You have no changes in controls or procedures and the thief is right back where she was before.

You have a manager that is "vested" in this employee for reasons of loyalty, personal allegiance and possibly just through managerial convenience. The manager may also be going through the typical "denial" that occurs when good employees go bad. Managers just cannot believe that their long trusted employee was dishonest. Regardless, the manager (and Human Resources) is saying this is "my employee" and I will do what I want to do.

My immediate short-term suggestion is to do more audits of this person. You have a duty to your organization to safeguard its assets. If the manager is not willing to change the process or re-assign the person to duties with lower risk of loss, then you should do what you can to minimize future losses. Audit them more and

pounce upon the next difference with passion.

In the meantime, if this employee has found weaknesses in your controls in one aspect, she may be looking for new ways in the future. The risk of loss is more than the \$300. You have a dishonest person working for you. Auditors may closely analyze controls and test them. Employees have intimate knowledge of the process. They see the rare exception. A dishonest employee capitalizes on this. The next loss may be much larger and more significant.

From a long term perspective, you may need to change the perspectives at your organization about the risk of fraud and department management's authority for tolerating theft and dishonesty in the workplace.

In the same manner that your human resources department may have handled the employees gambling problem, by referring to trained professionals in this field, your organization should refer to experts in the field of fraud. No organization should ever return an acknowledged thief back to their old job, yet alone unsupervised or with no additional controls. This is an invitation to steal again.

Local department management's tolerance of employee actions that have significant repercussions on the organization's overall risk environment clearly go beyond routine human resource management duties. Promptness for work, quality and quantity of work product, are within the realm of a manager's day-to-day oversight. It does not include making a psychological and behavioral assessment of an employee's continued propensity to be dishonest and steal. If a supervisory manager typically does not have the authority to acquire a multi-million dollar piece of medical equipment without senior management's approval, then that manager should not have authority to decide on comparable risks for dishonesty and theft.

If your department manager tolerated a negligent employee who regularly harmed patients, and this

gave rise to lawsuits in the millions of dollars, would this be in the scope of their management authority? If a manager tolerated inaccurate records for revenue and receivable processing that lead to inaccurate financial statements and lowered bond ratings, would this be in their scope of their authority? The answer, of course, is "no".

You need to advocate this at a senior management level. Your hospital's CFO, and CEO as well as your audit committee and Board should be made aware of these risks. They should be knowledgeable of the risk that the department manager is assuming for your organization. They should address the situation and make a decision at their level.

(I am not saying that retention of an employee like this should never be allowed, but it should be raised to an appropriate level in the organization commensurate with the level of risk.)

You should also talk with your compliance officer. What does your code of conduct say? How are employees trained in workplace honesty and integrity? Your compliance officer and senior management are responsible for setting the tone within your organization. How will your workforce view this situation? You know that people are going to talk about it. What kind of precedent and example does this set for the other employees in the department? What message does this tell employees in similar situations? Does this increase or decrease the potential that others will do the same and expect similar treatment?

Well that's it for this issue. Continue with your letters, faxes, and e-mails. Send questions to **Letters to the Auditor**, c/o John Landreth, Northwestern Memorial Hospital, 240 E. Ontario, Suite 340, Chicago, IL 60610; phone (312) 926-2944; fax (312) 926-3175 or e-mail jlandret@nmh.org. ■

AHIA Findings

LET US SHOW YOU THE ROPES! MMA ANNOUNCES NETWORK CONNECTION PROGRAM

By Jean Lambert, MBA, RN

'What's available in the AHIA Library?'.... 'How do I get the best use out of the Listserve?'..... 'What is the role of the AHIA Board of Directors?' 'What are all these committees about?' 'Who in the organization knows a lot about IT auditing?'... ..these and other questions have been on the minds of new AHIA members over the years. Somehow, new members have discovered answers to their questions, but until recently there hasn't been a structured approach to learning about AHIA. Now, there's the Network Connection Program!

This year at the Annual Conference in Las Vegas, the Membership, Marketing and Awards Committee unveiled a new program intended to welcome new members and acclimate them to the services of AHIA, facilitate networking and ultimately result in heightened member satisfaction. The Network Connection Program matches seasoned AHIA members – 'Networkers' - with new members thereby providing new members with a structured opportunity to maximize the benefits of AHIA membership.

In general, 'Networker' qualifications include: AHIA membership for at least 2 years, at least 3 years experience in healthcare internal auditing, a genuine interest and willingness to make the commitment to forming a networking relationship with new members and a high value, commitment and regard for AHIA, healthcare internal auditing and the desire to share these with others.

Current AHIA members meeting the qualifications can note on the annual membership renewal form their willingness to assume the

'Networker' role. New members can request to participate in the Network Connection Program at the time of initial application or via email to ahia@ahia.org.

'Networker' responsibilities include timely contact with the assigned new member, sharing contact information, and sharing AHIA information including details about the listserve, annual conference, educational opportunities, committee structure, and the audit library. 'Networkers' are further expected to be available for a minimum of 30 minutes per month for questions about AHIA and the practice of healthcare internal auditing. 'Networkers' and new members may elect to establish contact at the annual conference if mutually agreed upon.

New member responsibilities are few; willingness to participate and sensitivity to time demands on the 'Networker'. Approximately 30 minutes per month is standard however, this may be negotiated between the two parties.

The AHIA Board of Directors has endorsed this program as a value-added benefit for members and looks forward to its success. If you're a new member, please consider taking advantage of this new program..... ..let us show you the ropes! ■

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