



Strengthening Oklahoma's Safety Net,  
One Community At A Time

## Board Bulletin

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### CHC Audit Requirements

OMB Circular A-133 requires organizations receiving \$500,000 or more in federal funding to have an independent annual audit. BPHC Policy Information Notice (PIN) 98-23 outlining 330 Program Expectations states that "Health centers must ensure that an annual independent financial audit is performed in accordance with federal audit requirements." Audits are a powerful governance tool for CHC boards and should be given proper respect from the hiring of the auditor to the review of the final document.

#### Annual Audits

While the Sarbanes-Oxley Act of 2002 was intended to focus on the misuse of funds in publicly held companies, nonprofit organizations are also under increased public scrutiny. Audits performed according to Generally Accepted Auditing Standards, especially the more extensive A-133 audit, assist board members, as public stewards, in safeguarding the health center.

◆ **The Process** - The audit is a lengthy study conducted by certified public accountants to form an opinion as to whether the financial statements adequately reflect the financial position of the health center, changes in net assets and cash flow. All federal awards and programs must be identified with evidence that appropriate internal controls are in place for all financial transactions. Compliance procedures for federal programs must be demonstrated and appropriate financial statements will be reviewed. Health center staff will be asked to provide all necessary documentation to complete the audit. The audit committee should meet with the independent auditor during the process before the final document is completed. Members of the audit committee should be different from those individuals serving on the finance committee.

◆ **Audit Findings** - Once the process is complete, the entire board should meet with the auditor to discuss the audit report. An A-133 audit includes a summary of findings and questioned costs along with a schedule of expenditures under federal awards. There are various types of opinions that may result from an audit:

**Unqualified (clean) opinion** - a term used when the auditor is satisfied with the financial statements and provides the highest level of assurance an auditor can provide.

**Qualified opinion** - a term used when the auditor has reservations about an issue, particularly if generally accepted accounting principles (GAAP) are not being used. Board members should pay particular attention to qualified opinions and review the issue with the auditor in detail.

**Adverse opinion** - given when the financial statements are misleading and management will not correct them. A clear indicator that strong corrective action must be taken by the board.

**Disclaimed opinion** - issued when the auditor is unable to gather enough information to form an opinion. This can also result if proper internal controls are not in place. The board must aggressively investigate the cause of the disclaimer.

**Letter of Reportable Conditions** - distributed when the auditor feels the issues must be brought to the attention of the board. It focuses on significant deficiencies observed by the auditor.

#### Corrective Action

CHC boards are held responsible for following up on audit findings. They must prepare a corrective action plan for the current year audit findings that addresses each audit finding, who is responsible for the corrective action, identify the corrective action and the projected completion date of the corrective plan. According to BPHC PIN 98-23, "Where significant audit exceptions and/or internal accounting control findings exist, the health center must implement a time-phased corrective action plan and may be subject to grant award conditions." Boards should take heed if there is an unplanned auditor turnover as this could mean that there is disagreement between the auditing firm and management that deserves further board investigation. To review OPCA's entire *Board Bulletin* series, visit the 'CHC Boards' section of [www.okpca.org](http://www.okpca.org).

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