

- LO 1, 3 21-44. You are the chief audit executive for the internal auditing function of a large municipal hospital. You receive monthly financial reports prepared by the accounting department, and your review of them has shown that total accounts receivable from patients have steadily and rapidly increased over the past eight months.

Other information in the reports shows the following conditions:

1. The number of available hospital beds has not changed.
2. The bed occupancy rate has not changed.
3. Hospital billing rates have not changed significantly.
4. The hospitalization insurance contracts have not changed since the last modification 12 months ago.

Your internal audit department performed a financial and operational audit of the accounts receivable accounting function 10 months ago. The working papers file for that assignment contains financial information, a record of the preliminary survey, documentation of the study, evaluation of controls, documentation of the procedures used to produce evidence about the validity and collectibility of the accounts, and a copy of your report that commented favorably on the controls and collectibility of the receivables.

However, the current increase in receivables has alerted you to the need for another audit. You remember news stories last year about the manager of the city water system who lost his job because his accounting department double-billed all the residential customers for three months. You plan to perform a preliminary survey of the problem, if indeed a problem exists.

*Required:*

- a. Write a memo to your senior auditor listing at least eight questions that should be used to guide and direct the preliminary survey. (*Hint: The categories of questions used in the last preliminary survey were these: Who does the accounts receivable accounting? What data processing procedures and policies are in effect? and How is the accounts receivable accounting done? This time, you will use these categories and add a fourth category of questions: What financial or economic events have occurred in the past 10 months?)*
- b. Describe the phases of the audit that would be performed after the preliminary survey is completed.