

The Disclosure of Financial Information via the Internet by the
100 “Most Wired” Healthcare Systems

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Abstract

U.S. hospitals are facing calls for accountability from regulators, professionals and academics. Transparency and wider dissemination in reporting of financial performance is an integral component of accountability. Faced with similar calls, companies and local governments have harnessed the power of the Internet as a vehicle for dissemination of financial information. This paper investigates the extent to which U.S. hospitals have similarly used the Internet to demonstrate accountability to the communities they purport to serve. The authors examined the availability of financial on the websites of the American Hospital Association’s 100 Most Wired healthcare systems. Results of this investigation indicate that the vast majority of the most technically competent U.S. hospitals have yet to embrace Internet as a tool to demonstrate transparency in reporting of financial performance. The findings highlight an accountability gap for U.S. healthcare systems. The paper provides a discussion of these findings in light of renewed demands for accountability and transparency.

I. Introduction

This paper examines the availability of financial information on the Internet of the 100 “Most Wired” hospitals in the United States. Corporate accountability, transparency and accessibility of financial information are terms that have taken center stage in the wake of the recent highly publicized corporate scandals involving Enron, Worldcom, and Tyco and the government’s response (Sarbanes-Oxley 2002). While the health care sector has had its share of problems with corporate misfeasance (e.g., Columbia, Tenet and HealthSouth), there has yet to be a corresponding Sarbanes-Oxley requirement for the not-for-profit sector, which includes a large number of health care providers. This study finds that despite repeated calls for financial disclosure (HFMA 1994; Clarke 2005), hospitals fail to provide useful financial information and consequently fall short in their efforts to be accountable to the communities they purport to serve. Financial information is either completely absent from the hospital’s website, poorly highlighted in an annual report or even when reported, conveyed in such aggregated form as to be of little use to the community stakeholders.

The remainder of this study is organized as follows: Section II describes the background and related authoritative and academic literature relevant to hospital financial reporting. Section III describes our research questions, methodology and results. Section IV provides our conclusions, limitations of the study and suggestions for future research.

II. Background and Related Literature

Financial Disclosure and the Internet

The accounting literature on disclosure frequently cites the agency concept as providing incentives for mandatory and voluntary disclosure of financial information. These incentives are viewed in the literature as predominantly driven by the need to reduce information asymmetry between principals and agents. Stakeholders (principals) use accounting information to monitor the performance of management (agents). In turn, these agents use accounting disclosure as an opportunity to signal their performance to their various principals (Watts and Zimmerman 1986; Healy and Palepu 2001). In today's society the Internet provides an efficient and economical vehicle to communicate performance to shareholders and stakeholders alike. This role for Internet financial reporting has been recognized by regulators and professionals in the private (FASB 2000; IASC 1999), public (GFOA 2003) and not-for profit (I.R.C. 2005) sectors.

Accounting research on the private sector indicates that a significant proportion of companies provide both financial and non-financial reporting through the Internet. Public corporations use their websites to widen the audience for information previously disclosed in regulatory (e.g., SEC) filings and press releases. These websites also provide a vehicle for voluntary disclosures not provided to the regulatory agencies (Ettredge et al. 2002). Studies indicate that the majority of for-profit companies use their websites for the dissemination of information previously (or simultaneously) filed with regulatory agencies or provided to stakeholders through another medium, for example, a printed copy of annual report/Form 10-K or media release (Ettredge et al. 2002; Xiao et al. 2002).

Recent studies of the public sector also indicate a increased growth in the adoption of Internet financial reporting by local governments. Groff and Pitman (2004) reviewed the websites of the largest 100 U.S. municipalities for Internet financial disclosures. Eighty-nine percent of the cities provided some financial disclosures on their website. Laswad et al. (2005) found that local governments provide financial information on their websites when more visible in the press, have higher levels of leverage and are wealthier in terms of revenues generated per capita. Styles and Tennyson (2005) report that a majority of large cities (populations greater than 100,000) provide financial statements on their official websites, though this proportion is significantly lower for medium and small cities. The accessibility of financial data is positively related to size of city, income level of the city's residents, the city's debt level and financial condition of the city.

Although there has been considerable interest and research in web-based financial disclosure in the private and government sectors, the not for profit sector remains relatively unexplored. The authors are not aware of a study that has investigated internet financial reporting for the health care industry; consequently, a descriptive analysis of the current financial disclosures is a necessary starting point for improving the financial accountability of the health care industry (Christensen and Mohr, 2003). In this respect this study extends the growing Internet financial reporting literature and should provide insights into the current financial accountability of the health care systems.

The following discussion provides a background of the financial reporting requirements for U.S. hospitals and considers motivating factors for Internet financial reporting by the various members of the healthcare industry.

The Community Hospital, Ownership and Financial Disclosure

The primary component of health care delivery in the United States is the community hospital¹. Although community hospital ownership can be investor owned (for profit), not for profit or government, the community hospital is, by definition, accountable to the community it serves. A major component of accountability is performance monitoring and reporting including “reports to the community on the quality and costs of health care services” (Alexander, Weiner, and Succi 2000: 164). The total number of community hospitals in 2004 was 5,759; investor owned (for-profit) hospitals accounted for 835 of the total, there were 1,117 state and local government hospitals and the not-for profit hospitals with 2,967 represented the majority category. Of the total, nearly 80% of the hospitals are members of a larger healthcare system or network (American Hospital Association 2005a). Each ownership category has its own distinct financial reporting requirements and the range of governance structures for U.S. hospitals raises the question: what is the appropriate reporting entity (e.g., single hospital, region, system) for the community an individual hospital purports to serve?

The only common national reporting requirement is the Medicare Cost Report. The Medicare Cost Report was originally used to determine the costs that the federal government would pay. While there has been a major overhaul of the Medicare payment system since its inception in 1966, the Medicare Cost Report has remained relatively static but requires the collection of large quantities of data to be reported. Furthermore,

¹ The American Hospital Association defines a Community Hospitals as all nonfederal, short-term general, and other special hospitals. Other special hospitals include obstetrics and gynecology; ear, eye, nose and throat; rehabilitation; orthopedic; and other individually described specialty services. Community hospitals include academic medical centers or other teaching hospitals if they are nonfederal short-term hospitals. Excluded are hospitals not accessible by the general public, such as prison hospitals or college infirmaries (AHA Hospital Statistics, 2006 Edition. Chicago IL: American Hospital Association).

hospitals maintain accounting records using generally accepted accounting principles (GAAP) for financial reporting are at odds with the Medicare Cost Report and requires hospitals to adjust their GAAP financial data to the rules for Medicare reporting. Though the Medicare Cost Report is public information, its complexity and cost, renders the information of questionable usefulness to community stakeholders (Kane and Magnus 2001).

While there are some privately held hospitals, most are member hospitals of larger for-profit investor owned systems (American Hospital Association 2005a). Investor owned (for profit) hospitals are treated like any other corporation for financial reporting purposes. Although accountability to the shareholders of the hospital corporation is not synonymous with accountability to community stakeholders there is considerable overlap. Audited financial statements, Securities and Exchange Commission (SEC) filings and recent Sarbanes-Oxley requirements provide a foundation for accountability. The research findings of the previously discussed private sector Internet financial reporting suggest that investor-owned hospitals will use their websites to make required and voluntary financial disclosures.

State and local government hospitals are required to follow the financial accounting and reporting requirements of Government Accounting Standards Board (GASB) Statement No. 34 (1999). This statement requires a significant amount of new information including new government-wide financial statements and a Management's Discussion & Analysis section. Government hospitals also fall under the requirements of the GFOA (2003) Recommended Practice: *Using Websites to Improve Access to Budget Documents and Financial Reports*. The Recommended Practice calls for local and state

governments to provide financial reports on official government websites. The GFOA (2003) asserts that the benefits of Internet publication of these documents increases awareness of the documents, increases use by stakeholders, permits easier application of analytical tools, avoids disclosure redundancy and saves publication costs.

Not for profit community hospitals and their donors receive favorable tax treatment for fulfilling a “charitable” purpose. For hospitals, this charitable purpose has generally been construed as “charity” care (i.e., free care for indigent patients). This *quid pro quo* has come under renewed scrutiny by taxing authorities (e.g., IRS and local/state governments) which question whether appropriate amounts of charity care are being provided. Under Regulations sections 301.6104(d)-1 through 301.6104(d)-3, a tax-exempt organization must make its IRS Form 990 available for public inspection for three years (beginning on the date the return is required to be filed) or provide a copy (reasonable fee for reproduction and actual postage costs) to any individual who makes a request for such copy in person or in writing (Treas. Reg. §301.6104(d)-1 2005). Many not-for-profit hospitals have chosen to make their Form 990 available through third-party websites. But, despite access via the Internet, questions have persisted regarding the transparency and accessibility of the financial information provided for the public (Keating and Frumkin 2003).

Recently the Panel on the Nonprofit Sector² in their Report to Congress has recommended increased transparency and accountability for the not-for-profit sector. Included in their recommendations, is one that calls for all not-for-profits to attach a copy of audited financial statements to the Form 990 filed with the IRS and wider

² The Panel on the Nonprofit Sector encouraged by the Chairman of the Senate Finance Committee convened in October 2004 for the purpose of examining governance, transparency and ethical standards. Their final report to Congress and the Nonprofit Sector was issued in June 2005.

dissemination through annual reports and websites. The Healthcare Financial Management Association (HFMA)³ has renewed its call for financial disclosure as well including the recognition stakeholders in the U.S. healthcare system and the adoption of the Sarbanes-Oxley standards for good business practice (2005). The HFMA has encouraged financial disclosure since the mid 1990s with its *Principles and Practices Board Statement Number 18: Public disclosure of financial and operating information by healthcare providers* (HFMA 1994).

III. Research Questions, Methodology and Results

Research Questions

This paper examines the availability of financial information of the 100 Most Wired hospitals in the United States. The three primary research questions of the study are as follows:

1. To what extent are audited financial statements available at hospital websites?
2. To what extent is financial information available in the annual reports or other contexts if not available as audited financial statements on hospital websites?
3. For not-for-profit hospitals, is the Form 990 information available on hospital websites?

Methodology

We conducted a content analysis of the websites of the American Hospital Association's "100 Most Wired Hospitals"⁴ which has been published annually for the past seven years (2005b). Using a variety of information technology criteria, hospitals

³ The Healthcare Financial Management Association (HFMA) is the nation's leading membership organization for more than 34,000 healthcare financial management professionals employed by hospitals, integrated delivery systems, managed care organizations, ambulatory and long-term care facilities, physician practices, accounting and consulting firms, and insurance companies.

⁴ Although most the "100 Most Wired Hospitals" are actually systems that may include many hospitals, for consistency, the authors will use the term hospital throughout the paper.

submit completed surveys to the AHA which compiles the responses and ranks the hospitals. This sample, though not representative of the U.S. hospital landscape, was selected because of the authors' contention that these hospitals' failure to disclose financial information would not be because of their "technological inability" to do so. Consequently, the bias using this sample will likely "overstate" the degree of financial disclosure. A complete listing of the 100 Most Wired hospitals is included in Appendix A.

In conducting our content analysis we attempt to assume the position of an interested community stakeholder who might want to answer such questions as:

- Who owns the hospital and what is its profit orientation (i.e. for-profit or not-for-profit)?
- How readily available is financial information for the hospital and what financial information is provided?
- Is financial information for an individual hospital available?

Results

We tested the ability of the public to access hospital websites by using two common search engines, Yahoo.com and Google.com to locate the hospital on the Internet. TABLE 1 provides the results of the searches. Only one hospital website failed to appear in the search engine results and the average location of 1.18 in the results list indicates that the hospital websites are readily available to the public.

TABLE 1
Locating Most Wired Hospital Websites Using Google.com and Yahoo.com Search Engines

Website located using search term "Hospital Name"	97
Website located using search term "Hospital Name and City"	3
Unable to locate website	<u>1</u>
	100
Average location of hospital website on search engine results	1.18

We determined the ownership and profit orientation of the hospital based on information provided in the website. TABLE 2 provides the ownership/profit orientation explicitly stated by the hospital in the pages of its website. A majority of the hospitals (63 hospitals) indicated a not-for-profit orientation, three indicate for-profit or as part of a for-profit network, five hospitals are part of the federal government (four VA hospitals and one military hospital) and one is a municipal hospital. But over one quarter of the hospitals (27 hospitals) do not explicitly state the ownership/profit orientation of the organization. Of these twenty-seven, ten are university affiliated hospitals.

TABLE 2
Profit Orientation Explicitly Stated in Most Wired Hospital Website

For-profit	3
Not-for-profit	64
No indication of profit orientation	27
Municipal	1
Federal Government	<u>5</u>
	100

A majority of hospital websites provide general categories of information at the homepage which required us to review the various links for financial information. This review process was made more efficient by use of website search engines and/or site maps. The results presented in TABLE 3 indicate that the vast majority of systems provided either a search engine or a website map or index. For websites that did provide a search engine, we used the terms “financial statements,” “annual report” and “financial information.”

TABLE 3
Locating Information in Most Wired Hospital Websites

Hospitals providing website search engine	90
Hospitals providing website map or index	60
Hospitals providing website search and index	59

When locating pages of the website containing financial information we noted the location in the website, the financial information provided, the level of disclosure and whether the website provided historical or comparative financial data. The results of our analysis are presented in TABLE 4. As Panel A shows, the vast majority (63 of 100) of the Most Wired hospitals fail to include any financial data on their website. For the thirty-seven websites that do provide financial information the most common location for this data is an annual report or report to the community type document (30 of the 37 hospitals providing financial information) and/or “About Us” pages (25 of the 37). Panel C provides insights on the accessibility of these web pages from the website homepage. An average of 2.36 clicks from the homepage to view financial data and a maximum of 4 clicks suggests the public does not have to click into the “depths” of the hospital website.

Panel D of TABLE 4 presents the type of financial information provided at the websites. Out of the thirty-seven (of the 100 Most Wired) only four websites provided complete audited financial statements. A majority of these thirty-seven provide summary financial statements (17 hospitals) or highlighted financial data (17 hospitals). This summary or highlighted financial data is either accompanied by narrative or simply appears as part of a statistics or fact sheet. Interestingly, no website included a posting of the IRS Form 990 return.

Panel E indicates that the vast majority of hospitals report consolidated data (i.e., for the entire system rather than individual hospitals within the system) with two websites reporting Foundation data. A few websites did provide both consolidated and individual hospital level financial data. As Panel F shows, only twenty-two websites report

TABLE 4
Financial Information Provided at Most Wired Hospital Websites

Panel A: Most Wired Hospital Providing Financial Statement Data

No financial statement data provided at hospital website	63
Hospital provided financial statement data on website	37

Panel B: Location of Financial Statement Data in Most Wired Hospital Websites

Annual Report/Report to Community	30
“About US” Page	25
Homepage	3
News Page	3
Community Page	2
Investor Relations	1
Foundation Report	1
Other	3

Panel C: Number of clicks from Homepage to view Financial Statement Data:

Average	2.36
Maximum	4
Minimum	1
Mode	2

Panel D: Financial Data Provided:

Audited financial statements	4
Summary financial statements	17
Highlighted financial data	17
Form 990	0

Panel E: Level of Financial Statement Data:

Consolidated data	31
Individual hospital data	7
Foundation data only	2

Panel F: Provision of Historical Financial Statement Data:

Same webpage as current data	8
Separate webpage	7
Historical data provided with current data	7

historical financial data; this data is located in separate web pages or as comparative data for the most current data.

IV. Conclusions, Limitations and Future Research

Conclusions

The findings of this study highlight an accountability gap for U.S. healthcare providers. For a number of years hospitals have faced calls for increased accountability from regulators, professionals and academics. Transparency in reporting of financial performance is an integral component of this increased accountability. Facing similar calls for accountability, high-profile financial scandals and increased regulation in the form of the Sarbanes-Oxley Act 2002 and GASB 34, companies in the private sector and local governments have harnessed the power of the Internet as a vehicle for dissemination of financial reporting information. Our research indicates that the vast majority of the most technologically competent U.S. hospitals have yet to embrace the Internet as a tool for reporting of financial performance. This large-scale lack of enthusiasm for Internet financial reporting may suggest the healthcare industry encounters different incentives to report or not report financial performance using this widely available and efficient communication tool. The most disconcerting result of this study is that none of the sample hospitals posted their IRS Form 990 on their website. Opting for less efficient and visible reporting alternatives, the hesitancy to disclose is troubling. So why are health care systems reluctant to report financial information? Are legal concerns preventing them? Is it a fear of community backlash if executive salary packages are disclosed?

Depending on ownership structure and/or profit orientation, hospitals may have historically focused on investors and creditors (for-profit) and donors (not-for-profits) as

primary users of financial information. However, recent demands for transparency from the Congressional Panel (Panel on the Nonprofit Sector 2005) and the HFMA (Clarke 2005) should stimulate improvement in the transparency and the accessibility of financial reporting. Provision of audited financial statements on the Internet would make U.S. healthcare systems more accountable to the communities they serve. Moreover, should hospitals fail to improve their accountability voluntarily with the Sarbanes-Oxley Act (2002) Congress has demonstrated a willingness to intercede.

Limitations

The sample of hospitals chosen for this study is not representative of the population of U.S. hospitals and we suspect because these are the technologically advanced health systems our findings may overstate the actual level of Internet financial reporting. It is also possible that our content analysis may have missed financial information provided at the websites, but our failure to locate the financial information may further indicate the lack of transparency of the websites. As accounting academics and having reviewed 100 websites for financial information we may be more likely to find financial information at websites than most members of the public.

Further Research

The use of a relatively small sample limits our ability to generalize the results to the population of U.S. hospitals and health care systems. Future studies can investigate the Internet financial reporting for a larger sample of U.S. hospitals and health care systems. A larger sample will allow researchers to analyze the relationship between Internet financial reporting and various characteristics of the hospitals/health care systems. This study has also raised the issue of whether hospitals face different

incentives for improving transparency of financial reporting via the Internet. Researchers could investigate these incentives by conducting surveys of accounting professionals in the health care systems and their various stakeholders. Many of the issues facing the U.S. health care system are common to other countries around the world. An international comparison of the Internet financial reporting of healthcare systems may provide interesting insights for the U.S. debate on healthcare issues.

Appendix A
100 Most Wired U.S. Healthcare Systems

Advocate Healthcare	Oak Brook	IL
Alegent Health	Omaha	NE
Aurora Healthcare	Milwaukee	WI
Avera Health	Sioux Falls	SD
Baptist Health South Florida	Coral Gables	FL
Baylor Health Care System	Dallas	TX
Berkshire Health Systems	Pittsfield	MA
Beth Israel Deaconess Medical Center	Boston	MA
Bridgeport Hospital	Bridgeport	CT
Carilion Health System	Roanoke	VA
Carolina Healthcare System	Charlotte	NC
Catholic Healthcare Partners	Cincinnati	OH
Cedars-Sinai Medical Center	Los Angeles	CA
Children's Hospital Boston	Boston	MA
Community Health Network	Indianapolis	IN
Covenant Health	Knoxville	TN
Crozer-Keystone Health System	Springfield	PA
Dartmouth-Hitchcock Medical Center	Lebanon	NH
Duke University Health System	Durham	NC
El Camino Hospital	Mountain View	CA
ETMC Regional Healthcare System	Tyler	TX
Evanston Northwestern Healthcare	Evanston	IL
Genesis Health Systems	Davenport	IA
Greenville Hospital System	Greenville	SC
Greenwich Hospital	Greenwich	CT
Hackensack Univ Medical Center	Hackensack	NJ
Health First	Rockledge	FL
Hunterdon Healthcare System	Flemington	NJ
Huntsville Hospital	Huntsville	AL
Indianapolis VA Medical Center	Indianapolis	IN
Inova Health System	Falls Church	VA
Intermountain Healthcare	Salt Lake City	UT
Iowa Health System	Des Moines	IA
Jewish Hospital	Louisville	KY
Kootenai Medical Center	Coeur d'Alene	ID
Lehigh Valley Hospital & Health Network	Allentown	PA
Lifespan	Providence	RI
Loyola University Medical Center	Maywood	IL
Maimonides Medical Center	Brooklyn	NY
Medstar Health	Columbia	MD
Memorial Health	Savannah	GA
Memorial Healthcare System	Hollywood	FL
Memorial Healthcare	Owasso	MI

Memorial Hermann Healthcare System	Houston	TX
Memorial Sloan Kettering Cancer Center	New York	NY
MemorialCare	Long Beach	CA
Meridian Health	Neptune	NJ
MeritCare Health System	Fargo	ND
Methodist Hospital System	Houston	TX
Naval Hospital Camp Pendleton	Camp Pendleton	CA
North Bronx Healthcare Network	Bronx	NY
North Mississippi Health Services	Tupelo	MS
Northeast Health	Troy	NY
Northwestern Memorial Hospital	Chicago	IL
Ochsnerclinic Foundation	New Orleans	LA
Ohio State University Medical Center	Columbus	OH
Opelousas General Health System	Opelousas	LA
Orlando Regional Healthcare	Orlando	FL
Palmetto Health	Columbia	SC
Parkview Health	Fort Wayne	IN
Partners Healthcare	Boston	MA
PeaceHealth	Bellvue	WA
Piedmont Hospital	Atlanta	GA
Poudre Valley Health System	Fort Collins	CO
Promedica Health System	Toldeo	OH
Providence Health System - Oregon Region	Portland	OR
Riverside Health System	Newport News	VA
Rockford Health System	Rockford	IL
Rush University Medical Center	Chicago	IL
Rush-Copley Medical Center	Aurora	IL
Sacred Heart Medical Center	Spokane	WA
Saint Alphonsus Regional Medical Center	Boise	ID
St. Luke's Health System	Kansas City	MO
Scripps Health	San Diego	CA
Sentara Healthcare	Norfolk	VA
Sharp HealthCare	San Diego	CA
Sisters of Mercy Health System	Chesterfield	MO
Spartanburg Regional Healthcare System	Spartanburg	SC
St. Joseph's Hospital	Parkersburg	WV
St. Luke's Episcopal Hospital	Houston	TX
St. Luke's Rehabilitation Institute	Spokane	WA
St. Vincent's Hospital	Birmingham	AL
Susquehanna Health System	Williamsport	PA
Texas Health Resources	Arlington	TX
Thedacare	Appleton	WI
Trihealth	Cincinnati	OH
UAB Health System	Birmingham	AL
University Health Systems of Eastern Carolina	Greenville	NC

University of New Mexico Hospitals	Albuquerque	NM
Univ of Pennsylvania Health Systems	Philadelphia	PA
University of Pittsburgh Medical Center	Pittsburgh	PA
UW Health Univ of Wisconsin Hospital	Madison	WI
VA Healthcare Network Upstate New York	Albany	NY
VA NY/NJ Healthcare Network	Bronx	NY
VA Palo Alto Health Care System	Palo Alto	CA
Valley Health System	Ridgewood	NJ
Valley Health System	Winchester	VA
Vanderbilt University Medical Center	Nashville	TN
Wentworth-Douglass Hospital	Dover	NH
Yale-New Haven Hospital	New Haven	CT

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