

Tennessee Health Facilities Commission

**For the Years Ended
June 30, 2001, and June 30, 2000**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
Nashville, Tennessee 37243-0260
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John G. Morgan
Comptroller

July 16, 2002

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Ms. Melanie Hill, Executive Director
Tennessee Health Facilities Commission
Suite 850, Andrew Jackson Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Health Facilities Commission for the years ended June 30, 2001, and June 30, 2000.

The review of management's controls and compliance with policies, procedures, laws, and regulations resulted in a finding which is detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
02/063



**STATE OF TENNESSEE
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March 1, 2002

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Tennessee Health Facilities Commission for the years ended June 30, 2001, and June 30, 2000.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Tennessee Health Facilities Commission's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Tennessee Health Facilities Commission is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed a finding which is detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit finding; we have included the response following the finding. We will follow up the audit to examine the application of the procedures instituted because of the audit finding.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Tennessee Health Facilities Commission's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/cj

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Health Facilities Commission
For the Years Ended June 30, 2001, and June 30, 2000

AUDIT SCOPE

We have audited the Tennessee Health Facilities Commission for the period July 1, 1999, through June 30, 2001. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment, revenue, expenditures, and payroll and personnel; and compliance with the Financial Integrity Act. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

AUDIT FINDING

Commission Did Not Comply With the Financial Integrity Act

The report on internal accounting and administrative control and the two responsibility letters were not received by the Commissioner of Finance and Administration and the Comptroller of the Treasury, as required by state law (page 7).

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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Audit Report
Tennessee Health Facilities Commission
For the Years Ended June 30, 2001, and June 30, 2000

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Tennessee Health Facilities Commission

For the Years Ended June 30, 2001, and June 30, 2000

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Health Facilities Commission. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

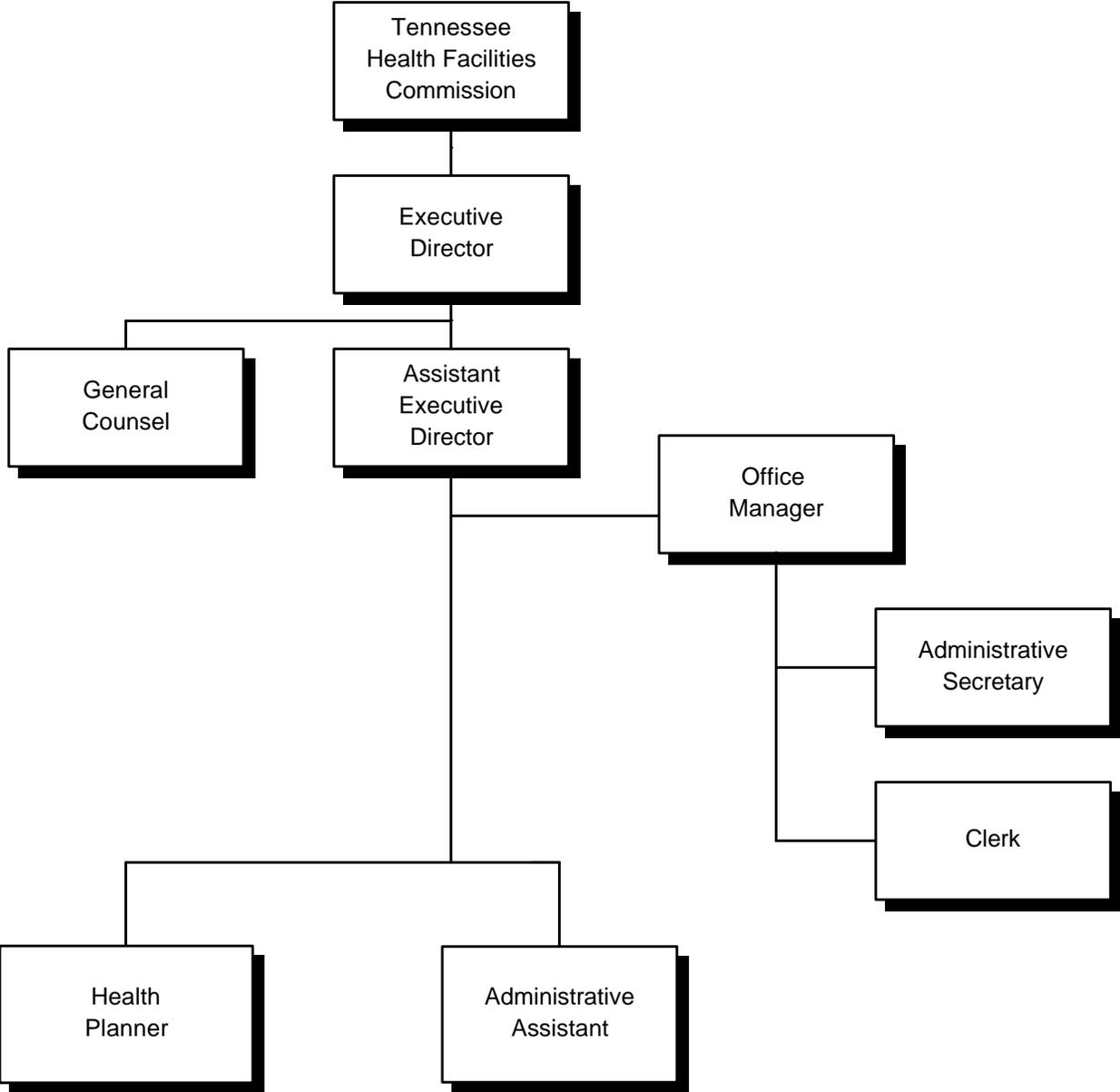
The Tennessee Health Facilities Commission is responsible for regulating the health care industry in Tennessee through the Certificate of Need program created by the General Assembly. This program regulates the establishment and modification of health care institutions, facilities, and services and ensures that health care projects are accomplished in an orderly, economical manner consistent with the health care needs of the people of Tennessee. The 13-member commission, appointed by the Governor, is composed of the Commissioner of Mental Health and Developmental Disabilities, the Commissioner of Health, the Comptroller of the Treasury, an executive of a hospital, a nursing home administrator, a physician, an executive of a home health agency, and six members of the general public knowledgeable of health needs and services.

The duties of the commission are to issue or deny certificates of need, based on provisions of current statute, to promulgate rules as set forth in the statute, and to require the submission of periodic reports by health care institutions and health care maintenance organizations concerning the development of proposals subject to review under the statute.

The commission must also submit a fiscal impact statement to the chairman of the Senate and House Finance, Ways, and Means Committee after each approval of additional hospital and/or nursing home beds. The statement is to reflect the estimated impact of those additions on future state appropriations and/or expenditures. The commission employs an executive director and additional professional staff who carry out the commission’s duties.

An organization chart of the commission is on the following page.

Tennessee Health Facilities Commission



AUDIT SCOPE

We have audited the Tennessee Health Facilities Commission for the period July 1, 1999, through June 30, 2001. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment, revenue, expenditures, and payroll and personnel; and compliance with the Financial Integrity Act. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

The Tennessee Health Facilities Commission is accounted for in allotment code 316.07.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

EQUIPMENT

Our objectives for reviewing equipment controls and procedures were to determine whether

- policies and procedures regarding equipment were adequate;
- property and equipment were adequately safeguarded;
- equipment information was properly recorded in the Property of the State of Tennessee listing (POST); and
- POST access granted to commission employees was appropriately documented, approved, and appeared reasonable based on the types of duties the employees performed.

We interviewed key commission personnel and reviewed supporting documentation to gain an understanding of the commission's procedures and controls over equipment. We selected all active equipment from POST to determine whether the equipment information was

properly recorded. Equipment information included state tag number, description, location, and serial number. We accessed POST to determine which employees were recognized users and to determine these employees' level of access. We reviewed the documentation authorizing these employees to access POST and compared the employees' level of access to the employees' job description.

Based on our interviews and reviews of supporting documentation, we determined that policies and procedures regarding equipment were adequate and property and equipment were adequately safeguarded. Based on our testwork, we determined that equipment information was properly recorded in POST and that POST access granted to commission employees was appropriately documented, approved, and appeared reasonable based on the types of duties the employees performed. Although we had no findings related to equipment, minor weaknesses were reported to management in a separate letter.

REVENUE

Our objectives for reviewing revenue controls and procedures were to determine whether

- policies and procedures regarding revenue were adequate;
- revenue was deposited promptly and intact, in accordance with the Department of Finance and Administration's Policy 25 concerning deposit practices; and
- revenue transactions were properly recorded.

We interviewed key commission personnel and reviewed supporting documentation to gain an understanding of the commission's procedures and controls over revenue. We also tested a nonstatistical sample of revenue transactions during the audit period to determine whether revenue was deposited promptly and intact, and the transaction was properly recorded.

Based on our interviews and reviews of supporting documentation, we determined that policies and procedures regarding revenue were adequate. Based on our testwork, we determined that revenue was deposited promptly and intact in accordance with F&A Policy 25 and revenue transactions were properly recorded. Although we had no findings related to revenue, minor weaknesses were reported to management in a separate letter.

EXPENDITURES

Our objectives for reviewing expenditure controls and procedures were to determine whether

- policies and procedures regarding expenditures were adequate;

- commission records were reconciled with reports from the state’s accounting system;
- recorded expenditures for goods and services were adequately supported, properly authorized, and correctly recorded in the state’s accounting records;
- payments to vendors were made promptly;
- expenditures were in compliance with applicable state regulations; and
- State of Tennessee Accounting and Reporting System (STARS) access granted to commission employees was appropriately documented, approved, and appeared reasonable based on the types of duties the employees performed.

We interviewed key commission personnel and reviewed supporting documentation to gain an understanding of the commission’s procedures and controls over expenditures and to determine whether commission records were reconciled with reports from the state’s accounting system. We also tested a nonstatistical sample of expenditures during the audit period to determine whether recorded expenditures for goods and services were adequately supported, properly authorized, and correctly recorded in the state’s accounting records; payments to vendors were made promptly; and expenditures were in compliance with applicable state regulations. We accessed STARS to determine which employees were recognized users and to determine these employees’ level of access. We reviewed the documentation authorizing these employees to access STARS and compared the employees’ level of access to the employees’ job description.

Based on our interviews and reviews of supporting documentation, we determined that policies and procedures regarding expenditures were adequate and commission records were reconciled with reports from the state’s accounting system. Based on our testwork, we determined that recorded expenditures for goods and services were adequately supported, properly authorized, and correctly recorded in the state’s accounting records; payments to vendors were made promptly; expenditures were in compliance with applicable state regulations; and STARS access granted to commission employees was appropriately documented, approved, and appeared reasonable based on the types of duties the employees performed.

PAYROLL AND PERSONNEL

Our objectives for reviewing payroll and personnel controls and procedures were to determine whether

- policies and procedures regarding payroll and personnel were adequate;
- payroll disbursements were authorized, adequately supported, and properly calculated;

- annual, compensatory, and sick leave were earned and taken in accordance with Department of Personnel guidelines;
- State Employee Information System (SEIS) access granted to commission employees was appropriately documented, approved, and appeared reasonable based on the types of duties the employees performed; and
- annual performance evaluations were given in accordance with Department of Personnel guidelines.

We interviewed key commission personnel and reviewed supporting documentation to gain an understanding of the commission's procedures and controls over payroll and personnel. We also tested a nonstatistical sample of payroll transactions from the audit period to determine whether payroll disbursements were authorized, adequately supported, and properly calculated; and annual, compensatory, and sick leave were earned and taken in accordance with Department of Personnel guidelines. We accessed SEIS to determine which employees were recognized users and to determine these employees' level of access. We reviewed the documentation authorizing these employees to access SEIS and compared the employees' level of access to the employees' job description. We also reviewed annual performance evaluations to determine whether they were given in accordance with Department of Personnel guidelines.

Based on our interviews and reviews of supporting documentation, we determined that policies and procedures regarding payroll and personnel were adequate. Based on our testwork, we determined that payroll disbursements were authorized, adequately supported, and properly calculated; leave was earned and taken in accordance with Department of Personnel guidelines; SEIS access granted to commission employees was appropriately documented, approved, and appeared reasonable based on the types of duties the employees performed; and annual performance evaluations were given in accordance with Department of Personnel guidelines. Although we had no findings related to payroll and personnel, minor weaknesses were reported to management in a separate letter.

FINANCIAL INTEGRITY ACT

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30 each year. In addition, the head of each executive agency is also required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

Our objectives were to determine whether

- the commission's June 30, 2001, and June 30, 2000, responsibility letters and December 31, 1999, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*;
- documentation to support the commission's evaluation of its internal accounting and administrative control was properly maintained; and
- procedures used in compiling information for the internal accounting and administrative control report were in accordance with the guidelines prescribed under Section 9-18-103, *Tennessee Code Annotated*.

We interviewed key employees responsible for compiling information for the internal accounting and administrative control report to gain an understanding of the commission's procedures. We also reviewed the supporting documentation for these procedures. We obtained and reviewed the December 31, 1999, internal accounting and administrative report from the commission and followed up with the Department of Finance and Administration and the Comptroller of the Treasury to determine whether the report was filed in compliance with Section 9-18-104, *Tennessee Code Annotated*.

We determined that the Financial Integrity Act responsibility letters were not prepared and the internal accounting and administrative control report was not received by the Department of Finance and Administration or the Comptroller of the Treasury, as discussed in the following finding. However, support for the internal accounting and administrative control report was properly maintained, and procedures used were in compliance with *Tennessee Code Annotated*.

The commission did not comply with the Financial Integrity Act

Finding

The Tennessee Health Facilities Commission did not comply with the Financial Integrity Act by not preparing or submitting responsibility letters acknowledging responsibility for maintaining the internal control system of the commission by June 30, 2001, and June 30, 2000, and by not submitting the internal accounting and administrative control report to the Commissioner of Finance and Administration and the Comptroller of the Treasury. Management provided the auditors a copy of the internal accounting and administrative control report dated January 12, 2000. However, this report was never received by the Department of Finance and Administration or the Comptroller of the Treasury.

Section 9-18-104, *Tennessee Code Annotated*, requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30, 1999, and each year thereafter. In addition, the head of each executive agency is also

required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

Recommendation

The Executive Director should ensure the required letters and reports are submitted to the Commissioner of Finance and Administration and the Comptroller of the Treasury by the submission deadlines.

Management's Comment

We concur that the responsibility letters and the internal accounting and administrative control report were not submitted. The responsibility letters and the internal accounting and administrative control report will be sent in a timely manner in the future. Internal controls have been put in place to ensure that the letters are received by July 1 of each fiscal year.

OBSERVATIONS AND COMMENTS

The Tennessee Health Facilities Commission was terminated as of June 30, 2001, in accordance with the provisions of the Tennessee Governmental Entity Review Law, *Tennessee Code Annotated*, Title 4, Chapter 29. Following termination, a wind-up period is provided by Section 4-29-112, *Tennessee Code Annotated*, which states, "Upon the termination of any governmental entity under the provisions of this chapter, it shall continue in existence until June 30 of the next succeeding calendar year for the purpose of winding up its affairs." The commission's wind-up period will end on June 30, 2002, and the commission will cease to exist. The Health Services and Development Agency, created by Section 68-11-1601 et seq., *Tennessee Code Annotated*, will take over the duties of the commission effective July 1, 2002.