

**Audit Results From
CAFR and Single Audit Procedures**

Department of Health

**For the Year Ended
June 30, 2006**

**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

**Department of Audit
Division of State Audit**

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Edward Burr, CPA
Assistant Director

Teresa L. Kennedy, CPA
Audit Manager

Christopher A. Risher, CFE
In-Charge Auditor

Jeff Hughes
Harry Q. Lee
Benjamin Rogers, CFE
Staff Auditors

Amy Brack
Editor

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 401-7897

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**Department of Health
For the Year Ended June 30, 2006**

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**Department of Health
For the Year Ended June 30, 2006**

EXECUTIVE SUMMARY

Our audit resulted in no audit findings.

For the complete results of our audit of the State of Tennessee, please see the State of Tennessee *Comprehensive Annual Financial Report* for the Year Ended June 30, 2006, and the State of Tennessee *Single Audit Report* for the Year Ended June 30, 2006. The scope of our audit procedures at the Department of Health was limited. During the audit for the year ended June 30, 2006, our work at the Department of Health focused on three major federal programs: Special Supplemental Nutrition Program for Women, Infants, and Children; Immunization Grants; and Block Grants for Prevention and Treatment of Substance Abuse. We audited these federally funded programs to determine whether the department complied with certain federal requirements and whether the department had an adequate system of internal control over the programs to ensure compliance.



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

May 17, 2007

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and
The Honorable Susan R. Cooper, Commissioner
Department of Health
Cordell Hull Building, 426 Fifth Avenue North
Nashville, Tennessee 37247

Ladies and Gentlemen:

Transmitted herewith are the results of certain limited procedures performed at the Department of Health as a part of our audit of the *Comprehensive Annual Financial Report* of the State of Tennessee for the year ended June 30, 2006, and our audit of compliance with the requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement.

Our review of management's controls and compliance with laws, regulations, and the provisions of contracts and grants resulted in no findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/tlk
07/012



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT

SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765

December 21, 2006

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

Dear Mr. Morgan:

We have performed certain audit procedures at the Department of Health as part of our audit of the financial statements of the State of Tennessee as of and for the year ended June 30, 2006. Our objective was to obtain reasonable assurance about whether the State of Tennessee's financial statements were free of material misstatement. We emphasize that this has not been a comprehensive audit of the Department of Health.

We also have audited certain federal financial assistance programs as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement. The following table identifies the State of Tennessee's major federal programs administered by the Department of Health. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Tennessee complied with the types of requirements that are applicable to each of its major federal programs.

**Major Federal Programs Administered by the
Department of Health
For the Year Ended June 30, 2006
(in thousands)**

<u>CFDA Number</u>	<u>Program Name</u>	<u>Federal Disbursements</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$103,641
93.268	Immunization Grants	\$35,069
93.959	Block Grants for Prevention and Treatment of Substance Abuse	\$35,181

Source: State of Tennessee's Schedule of Expenditures of Federal Awards for the year ended June 30, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We have issued an unqualified opinion, dated December 21, 2006, on the State of Tennessee's financial statements for the year ended June 30, 2006. We will issue, at a later date, the State of Tennessee *Single Audit Report* for the same period. In accordance with *Government Auditing Standards*, we will report on our consideration of the State of Tennessee's internal control over financial reporting and our tests of its compliance with certain laws, regulations, and provisions of contracts and grants in the *Single Audit Report*. That report will also contain our report on the State of Tennessee's compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

As a result of our procedures, we identified no material weaknesses or compliance issues related to the major federal programs at the Department of Health that are required to be reported in the State of Tennessee *Single Audit Report*. We have reported other less significant matters involving the department's internal control and instances of noncompliance to the Department of Health's management in a separate letter.

The Honorable John G. Morgan
December 21, 2006
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This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." The signature is written in a cursive style with a large, prominent initial 'A'.

Arthur A. Hayes, Jr., CPA
Director

AAH/tlk

FINDINGS AND RECOMMENDATIONS

The audit resulted in no audit findings.

STATUS OF PRIOR AUDIT FINDINGS

State of Tennessee *Single Audit Report* for the year ended June 30, 2005

Audit findings pertaining to the Department of Health were included in the *Single Audit Report*. The current audit disclosed that the Department of Health has taken action to correct all of these audit findings:

- the department still did not perform an inventory audit of a high-risk vendor for the Special Supplemental Nutrition Program for Women, Infants, and Children even though auditors identified the risk of vendor fraud in the prior audit;
- management still has not fully addressed the risks of unauthorized access to the Patient Tracking and Billing Management Information System;
- the department has not assessed and mitigated the risks of misappropriation, misuse, or waste of vaccine associated with ineffective controls over the Vaccine Management computer system;
- the department did not assess and mitigate the risks associated with inadequate policies and procedures governing the follow-up and corrective action of monitoring deficiencies in the Block Grants for Prevention and Treatment of Substance Abuse program; and
- management has not assessed and mitigated the risks associated with unauthorized program changes to the department's Alcohol and Drug Abuse Management Information System, which contains confidential patient information, and management has also failed to test and approve a disaster recovery plan.

Most Recent Financial and Compliance Audit

Audit report number 06/062 for the Department of Health, issued in April 2007, contained certain audit findings that were not included in the State of Tennessee *Single Audit Report*. These findings were not relevant to our current audit, and, as a result, we did not pursue their status as a part of this audit.

OBSERVATIONS AND COMMENTS

MANAGEMENT'S RESPONSIBILITY FOR RISK ASSESSMENT

Auditors and management are required to assess the risk of fraud in the operations of the entity. The risk assessment is based on a critical review of operations considering what frauds could be perpetrated in the absence of adequate controls. The auditors' risk assessment is limited to the period during which the audit is conducted and is limited to the transactions that the auditors are able to test during that period. The risk assessment by management is the primary method by which the entity is protected from fraud, waste, and abuse. Since new programs may be established at any time by management or older programs may be discontinued, that assessment is ongoing as part of the daily operations of the entity.

Risks of fraud, waste, and abuse are mitigated by effective internal controls. It is management's responsibility to design, implement, and monitor effective controls in the entity. Although internal and external auditors may include testing of controls as part of their audit procedures, these procedures are not a substitute for the ongoing monitoring required of management. After all, the auditor testing is limited and is usually targeted to test the effectiveness of particular controls. Even if controls appear to be operating effectively during the time of the auditor testing, they may be rendered ineffective the next day by management override or by other circumventions that, if left up to the auditor to detect, will not be noted until the next audit engagement and then only if the auditor tests the same transactions and controls. Furthermore, since staff may be seeking to avoid auditor criticisms, they may comply with the controls during the period that the auditors are on site and revert to ignoring or disregarding the control after the auditors have left the field.

The risk assessments and the actions of management in designing, implementing, and monitoring the controls should be adequately documented to provide an audit trail both for auditors and for management, in the event that there is a change in management or staff, and to maintain a record of areas that are particularly problematic. The assessment and the controls should be reviewed and approved by the head of the entity.

FRAUD CONSIDERATIONS

Statement on Auditing Standards No. 99 promulgated by the American Institute of Certified Public Accountants requires auditors to specifically assess the risk of material misstatement of an audited entity's financial statements due to fraud. The standard also restates the obvious premise that management, and not the auditors, is primarily responsible for preventing and detecting fraud in its own entity. Management's responsibility is fulfilled in part when it takes appropriate steps to assess the risk of fraud within the entity and to implement adequate internal controls to address the results of those risk assessments.

During our audit, we discussed these responsibilities with management and how management might approach meeting them. We also increased the breadth and depth of our inquiries of management and others in the entity as we deemed appropriate. We obtained formal assurances from top management that management had reviewed the entity's policies and procedures to ensure that they are properly designed to prevent and detect fraud and that management had made changes to the policies and procedures where appropriate. Top management further assured us that all staff had been advised to promptly alert management of all allegations of fraud, suspected fraud, or detected fraud and to be totally candid in all communications with the auditors. All levels of management assured us there were no known instances or allegations of fraud that were not disclosed to us.