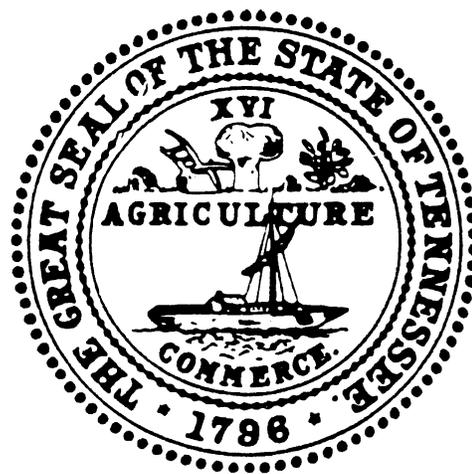


AUDIT REPORT

Health Services and Development Agency

October 2008



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
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John G. Morgan
Comptroller

October 14, 2008

The Honorable Phil Bredesen, Governor
and

Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

and

Ms. Melanie Hill, Executive Director
Health Services and Development Agency
Suite 850, Andrew Jackson Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Health Services and Development Agency for the period March 1, 2005, through February 29, 2008.

The review of internal control and compliance with 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/ajm
08/063



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COMPTROLLER OF THE TREASURY
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April 16, 2008

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 Health Services and Development Agency for the period March 1, 2005, through February 29, 2008.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Management of the Health Services and Development Agency is responsible for establishing and maintaining effective internal control and for complying with applicable laws, regulations, and provisions of contracts and grant agreements.

Our audit disclosed a finding which is detailed in the Objectives, Methodologies, and Conclusions section of this report. The agency's management 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 agency's internal control to the Health Services and Development Agency's management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA
Director

AAH/ajm

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Health Services and Development Agency
October 2008

AUDIT SCOPE

We have audited the Health Services and Development Agency for the period March 1, 2005, through February 29, 2008. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of revenue, expenditures, and the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDING

Revenue Receipting and Procurement Duties Not Adequately Segregated

The Health Services and Development Agency does not have adequate segregation of duties over the receipt of revenues and over the procurement function. Deficiencies were also noted in the agency's ability to make deposits in accordance with state law and to maintain adequate physical controls over revenues prior to the bank deposit. These conditions increase the risk of fraud.

Financial and Compliance Audit Health Services and Development Agency

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Financial and Compliance Audit Health Services and Development Agency

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Health Services and Development Agency. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which requires 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.

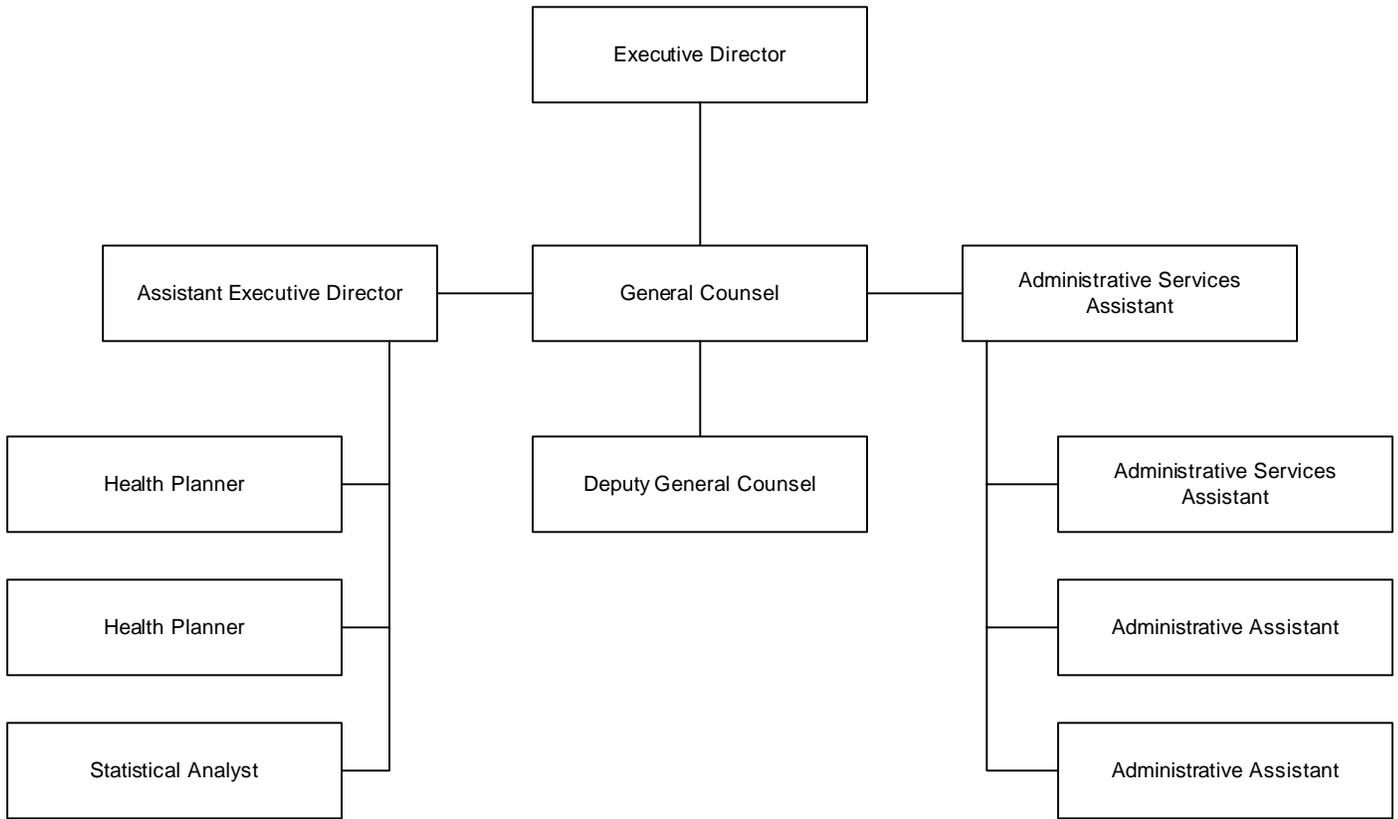
BACKGROUND

The Health Services and Development Agency was created by Section 68-11-1601 et seq., *Tennessee Code Annotated*, effective July 1, 2002. The agency, which is responsible for administering the Certificate of Need program, assumed the duties of the Health Facilities Commission, which ceased to exist on June 30, 2002. The Health Services and Development Agency 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 10-member agency is composed of the Comptroller of the Treasury, the Director of TennCare, the Commissioner of the Department of Commerce and Insurance, one consumer member appointed by the Speaker of the Senate, one consumer member appointed by the Speaker of the House of Representatives, and five members appointed by the Governor consisting of one consumer member and four industry representatives.

The duties of the agency 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 concerning the development of proposals subject to review under the statute. The agency employs an executive director and additional professional staff who carry out the agency’s duties.

An organization chart of the Health Services and Development Agency is on the following page.

Health Services and Development Agency Organization Chart



AUDIT SCOPE

We have audited the Health Services and Development Agency for the period March 1, 2005, through February 29, 2008. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of revenue, expenditures, and the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUE

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

- revenue transactions were properly supported and recorded in the accounting system;
- agency records were reconciled with the Department of Finance and Administration revenue reports;
- cash receipting duties were adequately segregated;
- pre-numbered receipts were used and issued in sequence for monies received by the agency and that copies of voided receipts were retained;
- cash receipts were properly secured until deposit, deposited intact, deposited in accordance with the Department of Finance and Administration's Policy 25, and included supporting documentation that was mathematically accurate;
- the Certificate of Need (CON) application process was properly completed and CON rates were properly calculated; and
- refunds of CON fees were issued in accordance with agency procedures.

We interviewed agency personnel and reviewed supporting documentation to gain an understanding of the agency's policies and procedures over revenue and the cash receipting process. We tested a nonstatistical sample of revenue collected for the period March 1, 2005,

through November 30, 2007, to determine if revenue transactions were properly supported and recorded in the accounting system. We reviewed the agency's reconciliations of its records with the revenue reports issued by the Department of Finance and Administration. We reviewed the cash receipt books for the period March 1, 2005, through January 31, 2008, to verify that pre-numbered receipts were issued in sequence for monies received and that copies of voided receipts were retained. We tested a nonstatistical sample of cash receipts for the period March 1, 2005, through January 31, 2008, to determine whether the cash receipts were deposited intact, deposited in accordance with the Department of Finance and Administration's Policy 25, and included supporting documentation that was mathematically accurate. We tested a nonstatistical sample of CON applications processed for the period March 1, 2005, through January 5, 2008, to determine if the application process was properly completed and CON rates were properly calculated. For the period March 1, 2005, through January 31, 2008, we examined agency refunds of CON fees to determine if refunds were issued in accordance with agency procedures.

As a result of the testwork performed, we determined that revenue transactions were properly supported and recorded in the accounting system; agency records were reconciled with Department of Finance and Administration revenue reports; the Certificate of Need application process was properly completed and CON rates were properly calculated; and, in all material respects, refunds of CON fees were made in accordance with agency procedures. We determined that pre-numbered receipts were issued in sequence for monies received and that copies of voided receipts were retained. Also, cash receipts were deposited intact; however, cash receipting duties were not adequately segregated, and cash receipts were not deposited promptly in accordance with the Department of Finance and Administration's Policy 25 as discussed in the following finding.

Revenue receipting and procurement duties at the Health Services and Development Agency are not adequately segregated, increasing the potential for errors and fraud to occur and remain undetected

Finding

The Health Services and Development Agency does not have adequate segregation of duties over the receipt of revenues and over the procurement function. Deficiencies were also noted in the agency's ability to make deposits in accordance with state law and to maintain adequate physical controls over revenues prior to the bank deposit. The prior-audit final management letter reported the inadequate segregation of duties over revenues and procurement. Management's risk assessment also addressed these areas; however, the "current internal controls" noted in the assessment to mitigate these risks were not in place and/or were not in accordance with state law.

Deposit Function

The Health Services and Development Agency's revenues consist entirely of checks. Actual cash is not accepted. When a revenue transaction is received, an administrative assistant prepares the receipt and the check log. This administrative assistant also makes a comparison of

the receipts, the check log, and the deposit slip prior to the fiscal officer making the bank deposit. The fiscal officer prepares the deposit slip, makes the actual bank deposit, and posts the deposits and the revenue transactions to the accounting records. This individual is the only agency employee with access to the accounting records. At month-end, the fiscal officer performs the reconciliation of the deposit slip to the monthly revenue report. There is no independent review of daily bank deposits or the revenue report reconciliation. Because the administrative assistant compares receipts with the deposit slip prior to the deposit instead of with the deposit ticket received from the bank after the deposit is made, there is an opportunity for funds to be stolen without detection before the deposit is made.

Timeliness of Deposits

The Health Services and Development Agency did not make timely deposits of funds received in accordance with Section 9-4-301, *Tennessee Code Annotated*, and the Department of Finance and Administration's Policy 25. Additionally, personnel failed to adequately safeguard receipts prior to the bank deposit.

Section 9-4-301(a), *Tennessee Code Annotated*, states, "It is the duty of every department, institution, office and agency of the state . . . collecting or receiving state funds, to deposit them immediately into the state treasury or to the account of the state treasurer . . . or to the appropriate departmental account if authorized . . ."

Department of Finance and Administration Policy 25 further defines the term "immediately" as follows:

For departments, institutions, offices and agencies, "immediately" means within 24 hours after \$500.00 has been accumulated or 5 working days if more than \$100 but less than \$500.00 has been accumulated, provided that the funds to be deposited are secured under lock and key. Accumulated funds of \$100 or less, secured under lock and key, are to be deposited at least once each calendar month. If funds cannot be secured under lock and key, "immediately" means the same day.

Eleven of 25 receipts tested (44%) were not deposited immediately as defined by Policy 25. Although receipts at this agency consist only of checks, substantial dollar amounts can be accumulated. Receipts totaling \$13,284 were deposited one to ten business days late. Another aspect of our receipt testwork included the review of the remaining 249 receipts associated with the same deposit slips as the 25 receipts selected for initial testing. This review found that the agency had not promptly deposited 72 other receipts totaling \$241,478. These receipts were also deposited one to ten business days late.

Receipts received at the agency are stored by an administrative assistant, who keeps them in a cabinet located at the front desk. This cabinet is locked overnight but not during business hours. We also noted during testwork that in one instance over \$95,000 in checks was left in the office during a holiday weekend.

Current internal controls cited in management's risk assessment to minimize the risk of theft and loss included making deposits within two business days and segregation of duties. This time period for deposits is not in accordance with state law when \$500 or more is collected and duties are not adequately segregated.

Procurement Function

In this agency, the fiscal officer also serves as the procurement officer and has unlimited access in the Tennessee On-line Purchasing System (TOPS). The fiscal officer initiates purchases, and reviews and inspects the goods upon receipt but does not document this review. Furthermore, the fiscal officer enters data into the State of Tennessee Accounting and Reporting System (STARS) and performs the reconciliation of vendor invoices to the STARS warrant report. There is no independent review of this reconciliation. The Executive Director does approve payment vouchers prior to payment.

Current internal controls cited in management's risk assessment to minimize the risk of paying for services not received or padded invoices included segregation of duties and reconciliation of reports; however, duties are not adequately segregated.

Inadequate segregation of duties provides an opportunity for agency personnel to commit and conceal fraudulent activities. Likewise, clerical errors and inattention to policies and procedures may go undetected. When receipts are not adequately safeguarded and deposited in a timely manner, there is an increase in the risk of fraud, misappropriation of funds, and theft. Also, because the fiscal officer had unlimited access to TOPS and is able to make purchases without review or approval prior to the purchase, unauthorized purchases, such as goods or services for personal use, could go undetected. Without an independent review of the vendor invoice reconciliation, the fiscal officer may be able to conceal unauthorized purchases.

Recommendation

The Executive Director should review and revise the process associated with the receipt of revenues and procurement functions to ensure that duties are adequately segregated or that adequate compensating controls are in place. The agency's risk assessment should be reviewed and corrected. Adequate internal controls should be documented in this assessment and put into place. For the deposit function, following the actual bank deposit, an employee not responsible for preparing or making the deposit should reconcile the receipts, the deposit slip, and the bank deposit ticket to make certain all funds were deposited.

The fiscal officer should make timely deposits of the revenues received. Also, the Executive Director should ensure that funds received are adequately safeguarded, both during and after business hours, and are deposited in a timely manner according to the policies and procedures outlined in Section 9-4-301, *Tennessee Code Annotated*, and the Department of Finance and Administration's Policy 25. The Executive Director should take steps to encourage ongoing communication between the fiscal officer and the front desk personnel who log funds received to ensure that the fiscal officer is notified when deposits need to be made.

For the procurement function, an employee independent of the purchasing function in TOPS should approve the order before processing. In addition, an individual not associated with the purchase order should review and inspect the goods upon receipt. This review should be documented. An employee independent of the payment function should review and document the reconciliation of vendor invoices to the STARS warrant report.

Management's Comment

We concur with the finding. The agency has contracted with Shared Services Solutions (SSS) in the Department of Finance and Administration to help correct the deficiency noted.

Immediate corrective action took place once management was notified of the finding. In-service trainings were immediately held with the appropriate staff to notify them of the finding and how it was to be corrected. SSS is working with staff to ensure that written office procedures correctly reflect the correct procedure.

We concur that check receipting and procurement duties at the Health Services and Development Agency (HSDA) were not adequately segregated, increasing the potential for errors and fraud to occur and remain undetected. However, it is important to note that **no fraud has actually occurred**. As checks are received and receipted they are stamped "For Deposit Only."

Deposit Function

Independent review of daily bank deposits and revenue report reconciliation occurs. The Administrative Services Assistant (ASA) 3 compares the checks, receipts, check log, and deposit slips and initials in the check log that all is accurate both before and after the monies are deposited at the bank. The Director of Administrative Services (DAS) puts the checks and Certificate of Deposit (CD) in a leather State of Tennessee zippered pouch which she carries discreetly to the bank.

At the bank, the teller takes the top white CD slip and the checks, and returns a bank deposit slip with the date and amount of deposit. The DAS immediately checks to assure that the CD amount and bank deposit slip amounts match and gets an immediate correction if there is any difference.

Upon return, the DAS shows the CD and bank deposit slip to the ASA3, who confirms that they match the log and receipts by initialing the final column in the Check Log notebook.

Timeliness of Deposits

Deposits will be made in accordance with Department of Finance and Administration Policy 25. SSS has audited timeliness of deposits from April to July and all but two of the 102 checks that were received were deposited in accordance with Policy 25. Those two anomalies occurred while the DAS was on leave. All staff, including back-ups, will be in-serviced

specifically on adherence to Policy 25, and the Executive Director (ED) will monitor to ensure that deposits are being made in a timely manner, especially when a primary staff person in the process is absent. Checks are kept in a locked cabinet until time to be deposited.

The appropriate changes to the risk assessment will be presented to the Audit Committee, and approval will be requested at the August 27, 2008, HSDA meeting.

Procurement Function

The Director of Administrative Services submits purchasing needs in writing (via e-mail) to Shared Services Solutions (SSS). SSS staff will determine proper procurement procedure and make purchase. The DAS verifies receipt of goods and receives in the Tennessee On-Line Purchasing System (TOPS) and Edison. DAS receives invoice for goods, codes, gets ED approval, and forwards to SSS for payment. SSS processes the payment in TOPS, the State of Tennessee Accounting and Reporting System (STARS), and Edison. After preliminary internal review, SSS prints final voucher register and forwards to the DAS who reviews, signs, and forwards to the ED for review and signature. The DAS will then forward batch to Division of Accounts for release of batch and payment.

The Administrative Assistant 1 inspects the goods upon receipt and documents the review.

Reconciliation Review

Shared Services Solutions provides the monthly reconciliation report to the Executive Director, who reviews, initials, addresses any discrepancies, and files. If the Executive Director notes any non-compliance with the time requirements of Policy 25, she will take additional steps to encourage communication between the Director of Administrative Services and the front desk personnel who log funds.

Periodic Test of Indicated Revenue

As an additional compensating control, HSDA is working with SSS to develop procedures for periodic independent comparison of total Certificate of Need fees expected based on programmatic activity as compared to actual fees collected and reflected in accounting records.

Segregation of Duties

The HSDA is contracted with Shared Services Solutions to review and provide assistance with deposits and procurement functions and segregation of duties. SSS will perform audits to ensure compliance with this function.

A copy of the revised risk assessment will be reviewed, for approval, by the Audit Committee on August 27, 2008.

EXPENDITURES

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

- expenditures for goods, services, and travel were supported, authorized, properly recorded in the state's accounting system, and were made in compliance with applicable state regulations;
- agency records were reconciled with the Department of Finance and Administration accounting reports;
- voucher registers were properly approved;
- access to the State of Tennessee Accounting and Reporting System (STARS), the Tennessee On-Line Purchasing System (TOPS), the State Employee Information System (SEIS), and Property of the State of Tennessee (POST) was appropriate;
- the one payment cardholder was a current department employee and was properly approved;
- payment card purchases were adequately supported and recorded on the transaction logs, appeared reasonable and necessary for the conduct of state business and did not exceed the single-purchase dollar limit, and complied with the Department of General Services' *Agency Purchasing Procedures Manual*; and
- payment card transaction logs were properly approved and reconciled to the statements and receipts.

We interviewed agency personnel and reviewed supporting documentation to gain an understanding of the agency's procedures and controls over expenditures, including payment cards. We tested a nonstatistical sample of expenditures for the period March 1, 2005, through December 31, 2007, to determine whether expenditures for goods, services, and travel were supported, authorized, properly recorded in the state's accounting system, and were made in compliance with applicable state regulations. We reviewed vendor invoices to determine if they had been reconciled to accounting reports from the Department of Finance and Administration. Voucher registers generated during the audit period were also scanned for proper approval. We obtained a listing of authorized users for the accounting, purchasing, payroll, and property systems to determine the levels of access for agency employees. As there was only one user, we determined if the user was a current employee of the agency, had job duties which required the designated level of access, and whether this level of access created an inadequate segregation of duties. Supporting documentation was examined to determine whether the payment cardholder was a current agency employee and was properly approved to be a valid cardholder. We tested all payment card transactions for the audit period to determine whether payment card purchases were adequately supported and recorded on the transaction logs, appeared reasonable and necessary for the conduct of state business, did not exceed the single-purchase dollar limit, and complied with the Department of General Services' *Agency Purchasing Procedures Manual*. All payment card transaction logs were tested to determine if they were properly approved and reconciled to the statements and receipts.

As a result of the testwork performed, we determined that expenditures for goods, services, and travel were supported, authorized, properly recorded in the state's accounting system, and were made in compliance with applicable state regulations; agency records were reconciled with the Department of Finance and Administration accounting reports; voucher registers were properly approved; the payment cardholder was a current agency employee and was properly approved to be a valid cardholder; and all payment card purchases for the audit period were adequately supported and recorded on the transaction logs, appeared reasonable and necessary for the conduct of state business, did not exceed the single-purchase dollar limit, and complied with the Department of General Services' *Agency Purchasing Procedures Manual*. Payment card transaction logs were properly approved and reconciled to the statements and receipts. Also, the one user of STARS, TOPS, SEIS, and POST is a current employee of the agency and has job duties related to the designated level of access; however, we noted an inadequate segregation of duties with regard to purchasing as reported in the finding above.

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 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 agency's June 30, 2007; June 30, 2006; and June 30, 2005, responsibility letters and December 31, 2007, internal accounting and administrative control report were filed in compliance with Section 9-18-104, *Tennessee Code Annotated*;
- documentation to support the agency's evaluation of its internal accounting and administrative control was properly maintained;
- 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*; and
- corrective actions have been implemented for weaknesses identified in the report.

We interviewed key employees responsible for compiling information for the internal accounting and administrative control report to gain an understanding of the agency's procedures. We also reviewed the June 30, 2007; June 30, 2006; and June 30, 2005, responsibility letters and the December 31, 2007, internal accounting and administrative control report to determine whether they had been properly submitted to the Comptroller of the Treasury and the Department of Finance and Administration. We also reviewed the supporting documentation for the agency's evaluation of its internal accounting and administrative control.

To determine if corrective action plans had been implemented, we interviewed management and reviewed corrective action for the weaknesses identified in the report.

We determined that the Financial Integrity Act responsibility letters and internal accounting and administrative control report were submitted on time with the exception of the June 30, 2006, responsibility letter, which was not submitted until July 28, 2006; support for the internal accounting and administrative control report was properly maintained; and procedures used were in accordance with *Tennessee Code Annotated*. Corrective actions have been implemented for weaknesses identified in the report.

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, *Consideration of Fraud in a Financial Statement Audit*, 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, 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.

AUDIT COMMITTEE

On May 19, 2005, the Tennessee General Assembly enacted legislation known as the "State of Tennessee Audit Committee Act of 2005." This legislation requires the creation of audit committees for those entities that have governing boards, councils, commissions, or equivalent bodies that can hire and terminate employees and/or are responsible for the preparation of financial statements. Entities, pursuant to the act, are required to appoint the audit committee and develop an audit committee charter in accordance with the legislation. The ongoing responsibilities of an audit committee include, but are not limited to:

1. overseeing the financial reporting and related disclosures, especially when financial statements are issued;
2. evaluating management's assessment of risk and the agency's system of internal controls;
3. formally reiterating, on a regular basis, to the board, agency management, and staff their responsibility for preventing, detecting, and reporting fraud, waste, and abuse;
4. serving as a facilitator of any audits or investigations of the agency, including advising auditors and investigators of any information it may receive pertinent to audit or investigative matters;

5. informing the Comptroller of the Treasury of the results of assessment and controls to reduce the risk of fraud; and
6. promptly notifying the Comptroller of the Treasury of any indications of fraud.

In a previous audit report, we recommended that the Health Services and Development Agency establish an audit committee. The board of the agency appointed a five-member committee on November 15, 2006. The audit committee charter was approved by the Comptroller of the Treasury on March 2, 2007. Additionally, the audit committee has reviewed the agency's conflict-of-interest, code of conduct, and risk assessment.

APPENDIX

ALLOTMENT CODE

The Health Services and Development Agency allotment code is 316.07.