



STATE OF TENNESSEE
DEPARTMENT OF HEALTH

JOHN J. DREYZEHNER, MD, MPH
COMMISSIONER

BILL HASLAM
GOVERNOR

December 9, 2015

The Honorable Larry B. Martin, Commissioner
Department of Finance and Administration
State Capital
Nashville, TN 37243

and

The Honorable Justin P. Wilson
Comptroller of the Treasury
State Capital
Nashville, TN 37243

Re: Tennessee Financial Integrity Act

Dear Sirs:

This letter is written to you to address the internal control requirements of the Tennessee Financial Integrity Act as amended in 1998.

The objectives of the internal accounting and administrative controls of the Department of health are to provide reasonable assurance that:

- Obligations and costs are in compliance with applicable law;
- Funds, property and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accurate and reliable financial and statistical reports and to maintain accountability over assets.

The concept of reasonable assurance recognized that the costs of internal control should not exceed the benefits derived from those controls. In the course of any review, estimates and judgments are required to assess the expected benefits and related costs of control policies and procedures. Errors or fraud may occur and not be detected due to inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from

resource constraints, legislative restrictions, and other factors. Sound internal control is essential to achieving an entity's performance objectives, safeguarding resources, and providing reliable financial reports. But internal controls cannot ensure these goals will always be met.

One material internal control weakness identified concerns in control over inventoried state owned equipment. We are actively working to strengthen the internal control structure of the department's equipment inventory control system. We have developed a policy to manage sensitive non-capital assets valued at less than \$5,000 and the remaining assets.

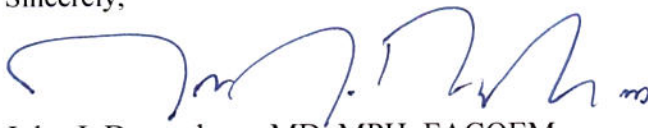
We are currently in the process of implementing a new inventory control system that will provide an accurate determination of a particular equipment item's use, location, and employee responsible for proper management and control of the item. We plan to enter state-owned assets into the new system in stages by Division within the Health Department which will allow us to make appropriate adjustments to ensure the new system is meeting our control needs.

Adherence to the new policy and timely use of new system will enable us to track equipment more efficiently and effectively.

As head of this agency, I acknowledge reasonability for maintaining the internal control system of this department. The department's internal controls in effect for fiscal year ending June 30, 2016, adequately safeguard assets (with exception for the weakness identified in the previous paragraph), and when taken as a whole provide reasonable assurance of the proper recording of financial transactions, compliance with applicable laws and regulations, and the achievement of operational objectives, subject to the limitations described in the previous paragraph.

In addition, staff of this Department has, throughout the year, conveyed to the Department of Finance and Administration any additional significant weaknesses to the operations or weaknesses in the financial controls and they have been identified.

Sincerely,

A handwritten signature in blue ink, appearing to read "John J. Dreyzehner". The signature is fluid and cursive, with a large initial "J" and "D".

John J. Dreyzehner, MD, MPH, FACOEM
Commissioner

FINANCIAL INTEGRITY ACT – OVERVIEW

The Tennessee Financial Integrity Act of 1983 requires the Department of Health – and all state agencies - to evaluate their system of internal accounting and administrative controls and submit the results to the Comptroller and the Commissioner of Finance & Administration each December 31st.

The evaluation and the preparation of the FIA is overseen and directed by Internal Audit to see that it is timely completed. But because internal control is a management responsibility the actual evaluation is performed by management using the *Enterprise Risk Management Guidelines* issued by Finance & Administration in consultation with the Comptroller.

- Management begins this process with the completion of **Objective Setting** where they identify the objectives of each program area, division, or bureau under their control and how those ultimately assist the Department to reach its stated mission.
- Next, management performs **Event Identification** to identify and assess the risks to achieving these objectives and evaluate the likelihood and impact of the occurrence of each risk. From this management develops the necessary internal control actions to manage the risks of achievement.
- Lastly, management completes a **Letter of Assurance** in which they attest that they have evaluated the system of internal accounting and administrative control in effect during the year.

The results of these management review actions and supporting documentation is gathered by the Office of Internal Audit.

- We insure that it is complete and all major areas of the department are covered.
- We also make sure there are no major internal control issues at hand and, if so, that management takes steps to correct those issues.
- The overall results and documentation is then compiled and submitted to the Comptroller and the Commissioner of Finance and Administration by the required time deadline.
- A copy of the assessment and all supporting documentation is maintained in the Office of Internal Audit for review and use of our audit staff in preparation for the individual audits and reviews we conduct in the various areas within the department. If there are weaknesses noted in the management's review we look at those as part of our audits to see that they are improved.