



STATE OF TENNESSEE
DEPARTMENT OF HEALTH
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PHIL BREDESEN
GOVERNOR

SUSAN R. COOPER, MSN, RN
COMMISSIONER

December 31, 2008

The Honorable Dave Goetz, Commissioner
Department of Finance and Administration
State Capitol
Nashville, Tennessee 37243

and

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

Re: Tennessee Financial Integrity Act Guidelines

Dear Commissioner Goetz and Comptroller Morgan:

This annual report addresses the agency-wide risk management and internal control requirements of the TCA §9-9-101, known as the *Tennessee Financial Integrity Act*, as amended. In order to assess the effectiveness of our internal control system and of individually significant controls, we conducted an evaluation in accordance with the guidance set forth under TCA §9-18-103. We understand that this guidance was developed using the established comprehensive internal control frameworks entitled *Internal Control – Integrated Framework (1994)* and *Enterprise Risk Management – Integrated Framework (2004)*, issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission and published by the American Institute of Certified Public Accountants, and have referred to these frameworks as necessary throughout the evaluation.

The objectives of the Department of Health's annual risk management and internal controls assessment are to provide reasonable assurance of the following:

- Accountability for meeting program objectives;
- Promoting operational efficiency and effectiveness;
- Improving reliability of financial statements;

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- Strengthening compliance with laws, regulations, rules, and contracts and grant agreements; and
- Reducing the risk of financial or other asset losses due to fraud, waste, and abuse. Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.

The concept of reasonable assurance recognizes that the costs of internal controls should not exceed the benefits derived from those controls. Reasonable assurance is a high but not an absolute level of assurance. 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 risk management and internal control, including those limitations resulting from resource constraints, legislative restrictions, or other factors. Risk assessment allows the agency to consider the extent to which potential events have an impact on achievement of objectives and to mitigate the risk of events that could have a negative impact.

As head of the Department of Health, we have performed an entity-wide risk assessment and have fully complied with the requirements specified in TCA §9-18-102. To reduce the effect of unacceptable risks, a system of internal control has been implemented and tested for operating effectiveness. I acknowledge responsibility for establishing, implementing, and maintaining an adequate internal control system to prevent and detect fraud, waste, and abuse and for performing this assessment of the operating effectiveness of the department's risk management and internal controls. The results of this assessment have given me reasonable assurance that the Department of Health's internal controls in effect on a June 30 fiscal year ending basis, adequately safeguard assets, and when taken as a whole provide reasonable assurance of the proper recording of financial transactions; compliance with applicable laws, regulations, rules, contracts and grant agreements; and the achievement of operational objectives, subject to the limitations described in the previous paragraph. As head of the Department of Health, I acknowledge responsibility for maintaining the internal control system of this department.

The attached documents reflect the results of our agency-wide risk assessment and the controls that are intended to mitigate the identified risks.

Sincerely,



Susan R. Cooper, MSN, RN
Commissioner

SRC/dmg