

MANAGEMENT LETTER

Nassau Health Care Corporation and Subsidiaries
Year Ended December 31, 2013

Ernst & Young LLP



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Management and the Board of Directors Nassau Health Care Corporation and Subsidiaries

In planning and performing our audit of the basic financial statements of Nassau Health Care Corporation and Subsidiaries (component unit of Nassau County) (the "Corporation") as of and for the year ended December 31, 2013, in accordance with auditing standards generally accepted in the United States, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

During our audit, we noted the following deficiencies in internal control (as described above) and other matters. Items denoted by an asterisk (*) indicate similar comments were made in the prior year. The Corporation's written responses to the deficiencies and other matters identified in our audit were not subject to auditing procedures.

Patient Accounts Receivable Collection Cycle*

For health care providers, the patient accounts receivable billing and collection cycle is a critical finance and operations process that requires a robust internal control framework and a detailed and focused execution plan. Particularly, for the Corporation, which serves a high indigent population, it is critical that management continue to focus on all aspects of this process, which is a significant driver of operating cash flow. Therefore, it is critically important that management continue its focus on this process, with the goal of ensuring full collection of all services provided.

Management continues to reevaluate its revenue cycle processes in order to identify improvement opportunities. In connection with the operational improvements, it is also critical that management continues to evaluate the financial reporting implications of revenue cycle results, especially as such results impact the valuation of net accounts receivable and net patient service revenue.

As part of management's ongoing improvement initiatives, we recommend management continue to consider the following areas of focus:

- ▶ Management should continue to review accounts at the financial class level, with particular attention on significant balances (for example, Medicaid, Medicaid pending and self pay financial classes) to determine whether financial statement valuation allowances are reflective of collection results.
- ▶ In connection therewith, management should also continue to consider the net collectability of accounts receivable in the aggregate, with such analyses updated timely to reflect the latest collection trends, particularly in hard to collect financial classes, to assist in management's estimation of valuation allowances for contractual adjustments and bad debts. We recommend that a hindsight review of the collection status of accounts receivable, or a similar analysis, be performed at periodic intervals, e.g., quarterly, to provide management with the ability to monitor reserve levels throughout the year on a more timely basis.

Management's Response

Management concurs and is continuing to review and improve the accounts receivable processes. Management has implemented revenue cycle initiatives to improve the revenue cycle processes and reduce the days in accounts receivable. Also, during 2013, management implemented improvements to the Corporation's discharging process that further reduced days in accounts receivable.

Designation of party responsible for external financial reporting and consolidation considerations*

The preparation of external financial statements which include all components comprising the Corporation in a format that is in accordance with US generally accepted accounting principles for governmental entities is a significant process separate from the monthly internal financial statement preparation. Management should designate a specific individual responsible for external financial reporting and combination considerations related to the multiple entities included within the Corporation's financial statements. In addition, management should consider whether internal financial statements should be prepared on a periodic basis in a manner that is consistent with the external financial statements.

Management's Response

Management concurs and is working on the presentation of the internal financial statements to more closely conform with external financial statements.

Financial Statement Close Process and Significant Disclosures*

The financial statement close process includes, among other things, the monthly process used by the Corporation's Finance Department to update and maintain the general ledger, reconcile Corporation activity to the general ledger, perform detailed account analysis for management's review, and produce financial statements.

The Corporation should continue to strengthen the financial statement close process and underlying controls by:

- ▶ Enhancing formal policies, procedures, roles, responsibilities, time-frames, and financial statement closing goals into the monthly close process.
- ▶ Enhancing formal procedures into the financial statement close process so that all appropriate account reconciliations are completed timely and evidence of their review is maintained.
- ▶ Codifying the formal procedures in the accounting policies and procedures manual.

Additionally, the Corporation's controls over significant financial statement disclosures and the related sources of information that influence these disclosures should be evaluated by management.

Controls related to the preparation, review and approval of the significant financial statement disclosures should be considered. Additionally, narratives or other explanatory information that document the flow of information from the Corporation's accounting records (including source inputs and required summarizations) to the disclosures in the financial statements should be enhanced.

Management's Response

Management concurs and has implemented a closing process which identifies specific tasks, and has assigned individuals accordingly. The schedule also incorporates a monthly time schedule. Management will continue to strengthen controls and enhance disclosures.

Capital Expenditures and Depreciation Expense

The Corporation maintains details of its fixed assets (e.g. cost, useful life, accumulated depreciation and depreciation expense) in a system subsidiary ledger ("fixed asset sub-ledger"). As part of the Corporation's financial statement close process, a listing of current year fixed asset additions and the applicable assigned useful lives is uploaded annually to the Corporation's fixed assets sub-ledger.

While performing our testing of current year fixed asset additions, we noted that for certain assets the assigned useful lives in the fixed asset sub-ledger were based on outdated industry useful life benchmarks.

We recommend that management consider the most up-to-date industry useful life benchmarks when assigning useful lives to its fixed asset additions. Additionally, we recommend that management perform a review to verify that the assigned useful lives are appropriately reflected in the fixed assets sub-ledger after each upload process.

Management's Response

As of January 1, 2014, the Corporation is using the most currently available guide.

Accrual for Received Not Invoiced Items

The Corporation's materials management system generates a monthly "Received Not Invoiced" ("RNI") report which details supplies received by the Corporation for which the corresponding invoice has not been received at period end. This report is used by the Corporation to accrue for such items as part of the monthly financial statement close process.

During our testing of the RNI report, we noted certain duplicate entries relating to items received over two years ago which were still included in the report and were either already paid by the Corporation or included in other year end accruals. The items were not removed from the RNI report by the system due to pricing or quantity variances when the related invoices were received by the Corporation.

We recommend that the Corporation perform a periodic review of the RNI report and investigate older items which may be duplicated in the system.

Management's Response

Management concurs.

Information Technology General Controls

Logical Access*

Lack of supporting evidence and formal review of user access

Systems affected: Lawson (general ledger, payroll and accounts payable system), Kronos (time keeping system), Eagle (hospital patient billing) and Reliable (nursing home patient billing)

During our review of the Corporation's process for user access recertification in the Lawson, Kronos, Eagle and Reliable applications, we were not able to obtain evidence to support that management appropriately reviewed all accounts currently in each of these applications. We noted no periodic recertification process in place for the Lawson, Kronos and Reliable applications and an ineffective

review process for the Eagle application to validate and confirm that application access remains valid and appropriate over time.

A formal process on recertification of user access rights on a periodic basis is integral to verifying the continued appropriateness of access at the application levels. Without a formal framework for the review process, there is no reasonable assurance that inappropriate or unauthorized access are detected and properly corrected. Proper accountability for the execution of the review process, including timeliness, may not be established.

Lawson, Kronos and Reliable

Management should consider on a periodic basis (at least annually) for respective process owners to review user access rights to determine if access is appropriate based on the individual's current functions and responsibilities. Supporting documentation of the review and follow up action items should be retained as evidence.

Typically to remediate this observation, users are reviewed on a departmental basis. Department managers review the access granted to each of the employees within that department. The department manager denotes any changes required and IT performs the necessary access modifications. Evidence of the review by the department manager is retained along with support that the access modifications were completed.

Eagle

Management should consider implementing a process to require supervisors to provide a formal acknowledgement (e.g., email) that they have completed their review. Evidence of review should be retained along with support for any access modifications requested by supervisors.

Management's Response

Although there was not a periodic recertification process, we believe that the exposure is limited. All terminations, transfers and hiring are processed through the Corporation's human resources system. The system is integrated with payroll and as soon as a change occurs, staff is notified. At that stage, validation of access is performed. We are planning to install a retroactive recertification process to catch possible misses.

Change Management*

Approval to migrate changes to production not formally documented or retained
System affected: Eagle (hospital patient billing)

During review of the Corporation's change management process for the Eagle application, we were not able to obtain evidence to support that changes are approved prior to migrating the change to the production environment. Management should consider formalizing the approval process to migrate changes to production. Evidence of approval should be retained.

Management's Response

Despite the fact that we have a ticketing system in place, not all change requests come through the ticketing system. As a practice, all production changes are put in the test system first, validated by the user and then moved to the production system. The process is not well documented. The Corporation is planning to implement a new ticketing system to ensure all requests including system changes are properly documented and approved before execution.

Change Management

Authorization, testing and approval prior to migrating changes to production
System affected: Reliable (nursing home patient billing)

During review of the Corporation's change management process for the Reliable application, we were not able to obtain evidence to support that changes are authorized, tested or approved prior to migrating the change to the production environment. Management should consider formalizing the change management process to include authorization of all changes provided by Reliable, testing of these changes in a test environment to mitigate potential issues to the live application and implementing an approval process to migrate changes to production. Evidence of authorization, testing, and approval should be retained.

Management's Response

The Corporation plans to install a monitoring system to ensure vendors are not able to access production systems for changes without prior approval.

Health Care Industry Matter

International Classification of Diseases, 10th Revision ("ICD 10") Readiness Planning*

The U.S. government will require all health care providers and payers to convert from using ICD-9 (International Classification of Diseases, 9th Revision) diagnosis and procedure codes to using ICD-10 codes starting October 1, 2015 (the conversion date was previously scheduled for October 1, 2014 and was recently delayed to October 1, 2015). This required conversion likely will be quite complex and will involve constituents from many functional areas. Throughout the Corporation, there are several systems, databases, interfaces, reports and processes that utilize ICD-9 codes that must be remediated by October 1, 2015. To some degree, the Corporation will be dependent on external vendors to remediate vendor-supported systems and databases. Beyond this external dependency, the Corporation will be required to remediate internal systems and test interfaces between all systems once they have been converted to be able to process ICD-10 codes.

Because ICD-9 (and, soon, ICD-10) codes are the foundation for payment, particularly with payers that pay the Corporation based on clinical diagnosis, it will be important to retrain the workforce on how to work with ICD-10 codes. The retraining requirement applies throughout the Corporation, but it is particularly important in the medical records coding function, for all personnel (clinical and

administrative) who are involved in the medical record documentation cycle. ICD-10 will expand the number of available diagnosis codes from 24,000 to over 155,000, providing for additional granularity and precision but increasing the complexity of the coding process. It will be important to identify medical record documentation deficiencies that will need to be corrected to support the capture of the correct ICD-10 code. It also will be important to model the financial impact of this conversion to minimize the potential negative financial shortfalls that could occur as a result of the conversion from ICD-9 to ICD-10.

A summary of the leading practices to address the ICD-10 conversion include:

- ▶ Establishing a steering committee to oversee the project. Steering committee members consist of personnel from various departments, including finance, medical records, revenue cycle, research, medical staff and human resources
- ▶ Identifying and appointing a full time project manager
- ▶ Deciding on a date that the entity will begin coding of claims in both ICD-9 and ICD-10. Many organizations are planning to start this several months prior to October 1, 2015
- ▶ Completing a software systems inventory
- ▶ Completing an inventory of managed care contracts
- ▶ Conducting an assessment of more complex case diagnoses (i.e. DRG's) where there are significant "one-to-many" code mapping conversion issues in order to identify where the current clinical documentation practices might not be adequate to support ICD-10 coding requirements
- ▶ Developing a process map for the planned medical documentation and coding workflows under ICD-10. Considering additional software tools such as computer assisted voice recognition, clinical documentation improvement software, and computer assisted coding. In addition, prompts built into the existing electronic medical record may need to be updated to accommodate ICD-10 documentation requirements
- ▶ Critically analyzing the denials management processes to develop an action plan to address the potential for increased payment denials after ICD-10 becomes effective
- ▶ Preparing employees and physicians for the implementation of ICD-10 by identifying, selecting and utilizing a workforce training strategy and supporting tools

- ▶ Establishing a process for maintaining regular contact with the entity's software vendors and payers. Gathering detailed information about their ICD-10 readiness plans and how they plan to interface with the Hospital
- ▶ Determining an approach and methodology for computing the financial impact of ICD-10 on the organization. For example, the impact of potential changes to payments under the ICD-10 codes, the cost of implementing ICD-10 and the impact of potential payment delays or denials, including related contingency plans as deemed necessary

While the conversion date was recently postponed from October 1, 2014 to October 1, 2015, given the complexity of the ICD-10 conversion, we recommend that the Corporation remain committed to the work that is currently underway. In general, we recommend that organizations continue in their readiness preparation as this will allow for a longer time frame within which to perfect the performance of new processes that will be required under ICD-10, for example, improving provider documentation and operational efficiencies in coding and the revenue cycle.

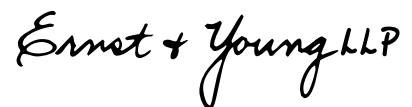
We have been informed by management that the Corporation has taken several steps in its process to convert to ICD-10. We recommend that the Board of Directors continue to monitor the readiness planning given the complexity and financial impact of the conversion.

Management's Response

Management concurs, and notwithstanding the ICD-10 delay, continues to educate staff and plans to implement dual coding in 2014. As well, the Corporation continues to query its ICD-10 dependent vendors for their readiness.

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June 26, 2014

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