

MANAGEMENT LETTER - FINANCIAL STATEMENT PROCEDURES

Nassau Health Care Corporation and Subsidiaries

Year ended December 31, 2011

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, 2011, 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 that similar comments were made in the prior year). The Corporation's written response to the deficiencies and other matters identified in our audit was 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 the 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. As part of management's ongoing improvement initiatives, we recommend that management conduct a review of 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 collection monitoring procedures can be strengthened and improved, thereby improving collection results and shortening the collections cycle. Management should also continue to consider the net collectability of accounts, with such analyses updated timely to reflect the latest collection trends, particularly in these hard to collect financial classes, to assist in management's estimation of valuation allowances for bad debts and contractual adjustments.

***Management's Response***

Management concurs and is continuing to review and improve the receivables process. Management has implemented a revenue cycle team to improve the revenue cycle processes and reduce days in account receivable during 2012.

**A. Holly Patterson Admission Registration Process**

During our testing of patient documentation we noted that a number of patient admission registration forms for A. Holly Patterson Extended Care Facility (the "Facility") were not signed by the patients. While the facility was able to collect its billings to these patients throughout the year, we recommend that the Facility obtain the patient's signed authorization on the admission registration form in accordance with the Facility's policy.

***Management's Response***

Management concurs - We have reviewed the cases in question and have strengthened our policy and implemented procedures to attain signatures on the first business day post admission.

**Other Post-Employment Benefits\***

The Corporation provides its participant data listing to a consulting actuary, who prepares an annual actuarial valuation for its postemployment benefit plan. The annual actuarial valuation is used to determine the Corporation's annual postemployment benefit expense and the related liability and financial statement disclosures. We recommend that management consider implementing a process to formally document the compilation of information submitted to the actuary, to challenge the information used by the actuary to develop the estimate, and to formally document the reasonableness of the assumptions (e.g., discount rate) used by the actuary.

***Management's Response***

Management concurs and will formalize policies for compilation of information to be submitted to the actuary. Management has also engaged a new actuary and is challenging and documenting all assumption for reasonableness.

## **Accounts Payable**

The Corporation maintains an accounts payable subsidiary ledger within their accounting system. During our testing of this subsidiary ledger, we noted certain items which lacked supporting documentation. Management should periodically review the subsidiary ledger to address items which appear aged or duplicative and evaluate its purchasing and disbursement processes for issues which may be causing such items.

### ***Management's Response***

Management is aware of some immaterial aged items from the early implementation of the Lawson accounts payable and general ledger system that we are unable to resolve due to system issues. Management is working with the Lawson team to resolve.

## **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. A large part of the aforementioned is already in place and management will continue to strengthen controls and enhance disclosures.

### Accounts Receivable and Revenue\*

Based on the results of our test of transactions and our inquiries of finance management, we noted that the billing system does not reflect the most current third party reimbursement rates for several payers. Although the billing departments have back-end procedures in place to adjust for differences, a process should be implemented to help ensure that billings to third party payers reflect the latest rates.

#### *Management's Response*

Management concurs and has reinforced communication between the billing department and the revenue cycle team to ensure that the billing to third party payers reflects the latest billing rates.

### Journal Entry Process\*

The Corporation's process and control procedures regarding recording journal entries should be strengthened. The Corporation should update policies related to adjusting journal entries. Specifically, policies should address the protocol for recording all types of journal entries, whether they are recurring, manual, pre-closing or post-closing.

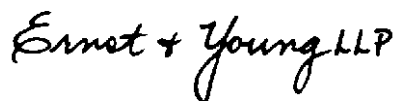
Written documentation should include the parameters for initiating journal entries and a matrix for approving and authorizing journal entries. The policies should distinguish between recurring and non-recurring journal entries and pre- and post- closing journal entries and the varying controls over each type. Further, written policies should establish standard guidelines for the written approval of all journal entries by someone senior to the preparer, in addition to written documentation by the preparer.

#### *Management's Response*

Management concurs.

\* \* \* \* \*

This communication is intended solely for the information and use of management, Audit Committee and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

July 26, 2012