

MANAGEMENT LETTER

Nassau Health Care Corporation
Year Ended December 31, 2007

Management and the Board of Directors
Nassau Health Care Corporation

In planning and performing our audit of the consolidated financial statements of Nassau Health Care Corporation (the "Corporation") as of and for the year ended December 31, 2007, 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. 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 control deficiencies (as described above) and other matters that we have included in the attached listing of comments to management. The Corporation's written responses to the control deficiencies identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

We would be pleased to discuss the matters included in this letter and the attachment or to respond to any questions, at your convenience.

Ernst + Young LLP

June 10, 2008

Nassau Health Care Corporation

Comments to Management

December 31, 2007

Postemployment Benefits Other Than Pensions

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. The Corporation should consider implementing a process to formally document the compilation of information submitted to the actuary, challenge the information used by the actuary to develop the estimate and to formally document the reasonableness of assumptions (e.g., the discount rate) used by the actuary.

Management's Response

Management concurs and is currently challenging certain assumptions that are driving the annual required contribution ("ARC") to an amount in excess of \$40 million each year going forward.

Financial Statement Close Process and Significant Disclosures (Comment Repeated from Prior Year)

The financial statement close process includes, among other things, the monthly process employed 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. As the Corporation strengthens and enhances its human resources in the finance area, it is important for management to continue to strengthen the financial statement close processes 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
- Posting fixed asset additions in a timely manner
- Codifying the formal procedures in the accounting policies and procedures manual.

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Comments to Management (continued)

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 maintained.

Management's Response

Management will continue to enhance its formal policies and procedures and reconciliation processes regarding its monthly close process to further ensure timely and accurate interim financial reporting.

Journal Entry Process (Comment Repeated from Prior Year)

The Corporation's processes 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 will continue to enhance and further formalize its policies and procedures related to the monthly and year-end journal entry process.

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Comments to Management (continued)

Credit Balances (Comment Repeated from Prior Year)

The complexity of billing arrangements, inconsistent patient information and the level of sophistication of payors are among the sources of credit balances. Credit balances have the potential to distort the periodic analysis of accounts receivable and the estimation of related allowances. It is important for the Corporation to ensure timely reconciliation and disposition of these accounts. Management should continue to review credit balance accounts to determine their cause and to document whether accounts should be adjusted, reclassified or refunded.

Management's Response

Management reviews credit balance reports on a monthly basis. We will continue to further enhance and formalize this process on a monthly basis.

Accounts Receivable and Revenue (Comment Repeated from Prior Year)

Based on the results of our tests 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 payors. 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 payors reflect the latest rates.

Management's Response

Management concurs and will further formalize its periodic updating procedures to ensure the latest rates are incorporated into the billing system on a timely basis.

Vacation and Sick Liability (Comment Repeated from Prior Year)

The payroll system accrual calculation erroneously included amounts for certain terminated employees. Prior to January 2002, Nassau County (the "County") prepared the payroll for the Corporation. If an employee was terminated prior to 2002 and was a bargaining unit employee, he/she was paid by the County over a three-year period; however, the Corporation does not have any record of payments made by the County for 2002 and 2003. The Corporation should identify and remove from the payroll system, accruals for employees that have been terminated and paid by the County.

Management's Response

Management concurs and will correct this issue during 2008.

Nassau Health Care Corporation

Comments to Management (continued)

Periodic Review for Fixed Asset Impairments (Comment Repeated from Prior Year)

The Corporation does not have a policy to periodically review fixed assets for indications of impairment in value. The Corporation should consider a periodic review by management of all assets recorded in the plant ledger to challenge the existence, useful life and carrying value. Accounting records should be adjusted, if necessary, based on management's review and conclusions.

Management's Response

Management will review its plant ledger for indications of impairment in value, annually.

Documented Cost Reporting Policies and Procedures (Industry Comment)

The Corporation has a number of policies and procedures designed to help ensure compliance with the myriad of regulations related to the preparation of its regulatory cost reports. Some of the policies and procedures have developed from established business practices, management oversight, job responsibilities, etc. and are not documented in writing. Given the importance of documenting compliance with rules and regulations, the Corporation should consider documenting in writing the policies and procedures involved in the development of cost report data, including those that help ensure that:

- Costs are not claimed unless based on appropriate and accurate documentation
- Allocation of costs to various cost centers are accurate and supported by verifiable and auditable data
- Unallowable costs are not claimed for reimbursement
- Costs are properly classified
- Prior year cost report adjustments are incorporated into future filings
- Related party charges are reflected at cost
- Procedures for reporting bad debts are in accordance with federal statutes, regulations, guidelines and policies.

This comment continues to be important in light of widespread heightened emphasis on documented internal controls and the desire of organizations to demonstrate the effectiveness of established controls.

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Comments to Management (continued)

Information Technology

In connection with the 2007 audit of the financial statements we performed an evaluation of the effectiveness of the information technology (“IT”) general controls (“ITGCs”) environment.

Our objectives were to:

- Update our understanding of the IT processes that support the business (financial statement relevance) and to consider business risks identified
- Validate the key controls related to the IT processes (change control, logical access security and technology operations) that affect the reliability of electronic audit evidence and financial reporting
- Evaluate the design effectiveness of the ITGCs through appropriate audit procedures
- Assess remediation of issues communicated during the 2006 financial statement audit.

We focused on applications that have a direct effect on financial reporting. Our 2007 audit procedures related to ITGCs for the following applications:

- Eagle
- Lawson

Section 1 of this portion of the management letter includes observations and recommendations based on our 2007 financial statement audit procedures.

Section 2 provides summary information for the follow-up on the prior year’s comments. We noted that each of the prior year’s recommendations has been or is being addressed by an action plan and that related controls have been strengthened.

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Comments to Management (continued)

Information Technology – Section 1

Change Management Process – Documentation of Controls in Change Management Process*

Management has implemented a limited set of program change policies and procedures to control changes made to the Eagle and Lawson applications. Although the Corporation does not own the source code of these applications and changes are limited to vendor initiated upgrades and report changes, management does not regularly perform and document testing, approval or monitoring of these changes.

Without formal program change policies and procedures, management cannot be assured that all changes are documented, tested and properly approved. Moreover, management cannot confirm that changes are made according to management's specifications and that only authorized programs are migrated into production. Programs moved to the production environment without appropriate testing have the potential to corrupt production data.

The lack of formal, written policies and procedures weakens the control environment and increases the risk that informal controls may not be followed. Additionally, as employees are not aware of the controls management has implemented, the risk that controls will not operate is increased.

The Corporation should strengthen its program change controls to require that all program change requests be documented, tested, approved and migrated to production by personnel independent of the application development function. Management should enhance the change management policies and procedures to better define and formalize the process of requesting, authorizing, testing and approving program changes.

* *Note: This is a subset of a point reported for fiscal year 2006. Refer to Section 2 for complete details related to the follow up of this prior-year observation.*

Nassau Health Care Corporation

Comments to Management (continued)

Management's Response

Eagle: As the Corporation does not own or have access to the applications source code, we are unable to affect any changes that might introduce or cause corruption of the data. Programs written by the Corporation IT are limited to user data requests which are tested vigorously and verified by the requestor. Migration to production is controlled via turnover check list and migration access limited to one individual who maintains the migration check list.

Eagle: The Corporation's IT staff, dealing with migration of programs to production is aware of the policies in place and do in fact follow them. Additionally, we have one individual who coordinates the migration of in-house written reports and one individual who coordinates release and version updates.

Eagle: The Corporation's IT staff detail the request received, testing and migration to the production environment. The turnover documentation is maintained.

Change Management Process – Outsourced Function Not Monitored*

Application upgrades and patches are developed and implemented by the Eagle and Lawson vendors as each vendor possesses unrestricted system access level to the production environments to promote changes. Report changes are developed and implemented by the Corporation system analysts. Unsupervised vendor or programmer access to the applications increases the risk of unauthorized or unintentional changes to program and resources that could affect the data integrity and completeness/accuracy of the reports generated and used for financial reporting purposes.

While organizations typically exercise little direct control over support service organizations, the services provided by these service organizations and their related internal controls are ultimately the responsibility of the Corporation. Without adequate IT management review of the vendor's program change and support activities, application system changes can be made without express approval of management. This observation makes the financial system vulnerable to undocumented changes, whether intentional or accidental that can impact the data integrity of the applications.

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Comments to Management (continued)

Management should review vendor access to help ensure that IT personnel can detect unauthorized or unapproved access to applications and that sufficient security is in place over the organization's information assets, to reduce the ability to implement unauthorized changes. Access to the Eagle and Lawson applications should be reviewed as follows:

- Initiate a supervisory review of the application logs to ensure that no changes were made by the vendor that were unauthorized or unapproved
- Ensure that the vendor's personnel use unique user IDs and passwords when accessing the Corporation's network and applications
- Routinely evaluate the vendor contract and security agreements for adherence to the defined parameters

Programmers should be limited to read only access into the production environment and be restricted to a development area of the system. If such segregation of duties is not feasible, an effective mitigating control (timely, documented review of changes) should be implemented and followed. This review should be performed by an individual other than the developer/implementer on a timely basis, preferable daily, weekly or (at maximum) monthly. Appropriate evidence of this review, including reviewer follow-up and sign-off, should be retained for a rolling twelve month period.

* *Note: This is a subset of a point reported for fiscal year 2006. Refer to Section 2 for complete details related to the follow up of this prior-year observation.*

Management's Response

Eagle/Lawson: The Corporation has entered into contracts specifically for the monitoring and release implementation. These Application Services Provider (ASP) contracts provide specifically for the monitoring of and implementation of releases and correction of errors. The Corporation's IT and Financial Departments are notified of the availability of a new release or version. The Corporation's staff arrange for the implementation in the test region and testing of the application prior to migration to the production environment. Scheduled System Down-Time events and notifications are sent to appropriate staff.

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Comments to Management (continued)

Eagle: The Corporation runs a quarterly scan for activity performed by Eagle consultants. This report is reviewed for inappropriate access to information. There is a help desk issue management in place with Siemens/Eagle that is used to monitor problems and other production issues. A failed nightly run will generate an issues ticket for review and notification of a problem. Only in an urgent situation, will the vendor apply a fix, and this requires a Corporation IT notification.

The documented production migration procedure requires a review of source code to ensure no delete, write, update macros are present.

Change Management Process – Review of Program Changes after Implementation

A review of changes promoted into the application production environment is not being performed. While changes to the Eagle and Lawson applications are infrequent, a regularly scheduled review should be performed to help ensure that unauthorized changes are not migrated into the production environment.

Without an appropriate review of all implemented program changes, unauthorized application system changes can be made and potentially not detected. If not detected in a timely fashion, the chance of a change affecting the entire application system (in unforeseen ways) increases. This risk makes the systems supporting the financial statements vulnerable to unauthorized changes, whether malicious or accidental, that can negatively impact the data integrity of the applications.

Management should review the logs of changes migrated to the production environment (system generated source) and compare these logs to the change request forms. This will enable management to identify discrepancies and/or potential changes that did not adhere to the standard change management process.

Management should document and retain clear evidence to show that all changes (program and configuration) are approved irrespective of the process followed, prior to implementation to the production environments.

Management's Response

Prior to an upgrade or release test installation, documentation provided by the vendor is reviewed for content, impact, configuration and client notification issues. This documentation is maintained for reference. Testing of the application updates is carried out by IT and other departments as appropriate.

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Comments to Management (continued)

This, in addition to review of vendor access logs, migration of in-house written reports, mitigates this issue to acceptable levels.

Logical Access Process – Administrative Users’ Access

We reviewed the access granted to specific accounts and access allowing extensive/administrator privileges (ability to add/modify/delete user access) and noted the following:

Siemens, third party vendor hosting the Eagle application, is able to continuously access the production environment without its activity being fully monitored.

Members of the IT team and the Director of Finance have inappropriate administrative access to the Lawson application when considering their job functions.

Unsupervised vendor access to the Eagle application administrative functions and inappropriate access administrative access to the Lawson application increases the risk of improper segregation of duties and unauthorized access to data files. This could affect the data integrity of the master data files and the completeness and accuracy of the reports generated and used for financial purposes.

We recommend that Siemens activity be monitored and reviewed. If logs are not available to monitor vendor activity within the production environment, we recommend that the ability to grant access for a limited and specific period of time be implemented. Further, logging of vendor access should be implemented, reviewed timely, and maintained indefinitely

Administrative user access should be limited to appropriate individuals. Further, logging of administrators access should be implemented, reviewed timely and maintained for a rolling twelve month period.

Management’s Response

Siemens/Eagle has permissions to the system in order to fulfill their responsibilities to monitor the systems interfaces, job run times and address other issues. The Corporation does perform scans of the logs specifically for access by the vendor. The Corporation’s IT and Finance staff has administrative rights in order to manage security of the two systems and review logged issues. The Corporation’s administrative access has not been logged but can be added to the current log reports. Please see observations on the last page for a more detailed discussion.

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Comments to Management (continued)

Logical Access Process – Periodic Review of User Access*

A periodic review of user access to confirm that only current (active) employees have the appropriate user access (based on job function) is not being performed. Without a periodic review of users and their assigned privileges, the potential for unauthorized access to critical data is increased.

Management should work with business process owners and application custodians to review the list of active users and their access levels on a pre-determined, periodic basis (e.g. quarterly). This review will help ensure that user access (and perimeters of entities allowed) levels are appropriate, thereby minimizing any known segregation of duties conflicts. Any users with inappropriate access should be immediately addressed and his/her profile updated accordingly. Appropriate evidence, including initial review of user access, suggestion of user profile changes, and business process owner/application custodian sign off, should be retained.

* *Note: This is a subset of a point reported for fiscal year 2006. Refer to Section 2 for complete details related to the follow up of this prior-year observation.*

Management's Response

The Corporation's IT staff performs a daily reconciliation of Eagle accounts and Human Resources active employee listings. Discrepancies are dealt with by terminating access.

Summary of the 2006 Recommendations and Status – Section 2

In connection with our audit of the 2006 financial statements, we provided our management letter that included recommendations related to the ITGC environment. As part of our 2007 audit, we performed a review of the implementation of remediation actions related to our recommendations. The recommendations and the status summary are detailed below. For each issue noted, we have indicated whether the remediation plan has been:

- **Implemented** – Controls have been implemented; however, we did not test such controls for fiscal year 2007.
- **Partially Implemented** – Improvements have been put in place, but controls have not yet been fully implemented.
- **Not Implemented** – Controls have not been implemented.

Summary of 2006 Recommendations	Current Status	EY Comments
<p>Change Management Policy <i>There is no formal change management policy and procedure.</i></p>	Partially Implemented	<p>Management has implemented a limited set of program change policies and procedures to control changes made to the Eagle and Lawson applications; however, evidence of key controls, such as authorization to develop and test, user acceptance approvals are not consistently documented.</p> <p>Two forms of change control are in place:</p> <ul style="list-style-type: none"> • Report requests and migration to production • Release or configuration changes that require notification to interfaced systems.
<p>Vendor Access <i>Vendor has unrestricted access to the programming module.</i></p>	Not Implemented	<p>Vendors still have unrestricted access to the Eagle and Lawson applications. Vendor activity is not being monitored by management.</p> <p>Eagle logs are viewed on a routine basis for appropriate vendor access.</p>
<p>Terminated Users <i>System administrators are not properly notified when employees are terminated.</i></p>	Implemented	<p>On June 1, 2007, the Corporation implemented a new Employee Tracking system. This tool is used to document and communicate employee terminations. Access to the Lawson and Eagle applications is being removed in a timely manner.</p>
<p>User Access <i>Eagle users have access to change current access levels and User access review is not periodically performed.</i></p>	Partially Implemented	<p>Eagle security has been strengthened to not allow users to change their access.</p> <p>A periodic review of user access to confirm that only current (active) employees have the appropriate user access (based on job function) is not currently being performed.</p> <p>In order to mitigate this threat, the line command name has been changed; access to the command has been provided to a limited number of appropriate IT staff.</p>