

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, 2010, 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 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 control deficiencies (as described above) and other matters that we have included in the attached listing of comments to management.

This communication is intended solely for the information and use of management, the Board of Directors and others within the organization, 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 above matters or to respond to any questions, at your convenience.

*Ernst & Young LLP*

May 26, 2011

# Nassau Health Care Corporation

## Comments to Management

December 31, 2010

### **Patient Accounts Receivable Collection Cycle**

For health care providers, the patient accounts receivable collection cycle is, perhaps, the most critical finance and operations process that requires a robust internal control framework and a detailed and focused 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. As we noted in the current and prior years, the Corporation's cash collections cycle is longer than that of many other hospitals; in some cases, the cash collections cycle is longer than 36 months, due to the high level of indigent care and the volume of Medicaid pending accounts. It is, therefore, critically important that management continue its focus on this process, with an eye toward ensuring full collection of all accounts. Management should conduct a review of accounts at the financial class level, with particular attention on significant balances (i.e., Medicaid, Medicaid pending, and self pay financial classes) to determine whether collection procedures can be strengthened and improved, thereby shortening the collections cycle. Management also should continue to verify the net collectability of accounts, particularly in these hard-to-collect financial classes, to help ensure that bad debt and contractual allowances are updated timely and reflect the latest net collection trends.

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

Management concurs and will continue to review the receivable process.

### **ICD-10 Readiness Planning (Industry Comment & Repeated from Prior Year)**

The US Government will require all health care providers and payers to convert from using ICD-9 diagnosis and procedure codes to using ICD-10 codes starting October 1, 2013. This required conversion likely will be quite complex and will involve constituents from many functional areas. Throughout the hospital, there are scores of systems (vendor-supported and home grown), data bases, interfaces, reports and processes that utilize ICD-9 codes that must be remediated by October 1, 2013. To some degree, the hospital will be dependent on external vendors to remediate the vendor-supported systems and data bases. Beyond this external dependency, the hospital 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 hospital based on DRGs, it will be important to retrain the workforce on how to work with ICD-10 codes. The retraining requirement applies throughout the hospital, but it is particularly important in the medical records coding function, for all people (clinical and administrative) who are involved in the medical record documentation cycle. It will be important

## Nassau Health Care Corporation

### Comments to Management (continued)

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.

While the October 2013 effective date might seem to be far off, the conversion will require significant lead time and testing. To help minimize the risk of disruption to the hospital's operations resulting from the ICD-10 conversion, we recommend the following summary actions:

- Assemble a steering committee around this important project as soon as possible
- Inventory all systems, data bases, interfaces and reports that presently utilize ICD-9 codes
- Inventory all processes that presently are dependent on ICD-9 codes
- Identify a plan for system remediation and build work around processes as necessary
- Determine what additional hardware and/or software might be required to support the conversion
- Identify a plan for retraining the personnel who will need to know and understand ICD-10 codes in their daily work
- Determine the extent to which supplemental staffing will need to be hired to support the potential for managing the overlap between ICD-9 and ICD-10 coding systems
- Accumulate the data and model the potential financial impact of migrating from ICD-9 to ICD-10 for the top five to seven payers.

#### *Management's Response*

We, in general, concur with your recommendations and have already taken steps to migrate over to ICD-10 coding. Steps already in progress include the following:

- Initial setting up of an INTERNAL IT TASK FORCE to coordinate this effort lead by the VP & CIO
- Initial setting up of a hospital wide ICD-10 MIGRATION COMMITTEE lead by an EVP
- Began reaching out to all vendors that have ICD ramifications within their software to request status and cost analysis
- Plan to add additional Senior Project Manager to oversee the entire project across all upgrades
- Have met with Medical Records to discuss this transition

## Nassau Health Care Corporation

### Comments to Management (continued)

- Have instructed our Training Manager to begin reviewing the appropriate training requirements for both IT and hospital wide training for all affected areas
- Have discussed the overall process with executive management

#### **Postemployment Benefits Other Than Pensions (Comment Repeated from Prior Year)**

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 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 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
- Codifying the formal procedures in the accounting policies and procedures manual.

## Nassau Health Care Corporation

### 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.

#### **Credit Balances (Comment Repeated from Prior Year)**

The complexity of billing arrangements, inconsistent patient information and the level of sophistication of payers 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.

## Nassau Health Care Corporation

### Comments to Management (continued)

#### *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 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 will further formalize its periodic updating procedures to ensure the latest rates are incorporated into the billing system.

#### **Information Technology**

In connection with the 2010 audit of the Corporation's consolidated financial statements we performed an evaluation of the effectiveness of the information technology general controls ("ITGCs") environment. Our objectives were to:

- Update our understanding of the Corporation's information technology ("IT") processes that support business processes and consider business risks we identify
- Evaluate the design of the controls related to the IT processes that affect our combined risk assessments for significant accounts
- Validate our understanding of the key controls related to the IT processes (change control and logical access security) that affect the reliability of electronic audit evidence ("EAE") and financial reporting
- Evaluate the design effectiveness of the ITGCs.

We focused the scope of the ITGC review on applications that have a direct effect on financial reporting. Our audit procedures relate to the ITGCs for the following applications:

- Eagle (hospital billings and collections)
- Lawson (accounts payable, cash disbursements and general ledger)

## Nassau Health Care Corporation

### Comments to Management (continued)

Based on the results of our walkthroughs of the key ITGCs supporting the significant financial applications, we noted improved controls in the IT environment; however, we concluded that the ITGC processes for the Eagle and Lawson applications were designed ineffectively from manage change and logical access perspectives. As a result, we did not rely on the Eagle and Lawson ITGCs; we performed direct testing of controls to serve as a basis for our financial statement audit procedures

*Section 1* of this section of the management letter includes findings and recommendations from our current year evaluation.

Section 2 of this section of the management letter provides summary information for follow-up on the prior year's comments.

#### **Section 1**

##### ***Change Management Process***

*Manage Change Documentation and Segregation of Duties  
(Systems Affected: Eagle and Lawson)*

#### **Observation**

Formal processes are in place from the initiation of a change through implementation, including IT and user acceptance testing. However, change request documentation is not formalized or retained to evidence appropriate approvals to initiate, authorize, approve and promote changes to production.

The infrastructure for the Eagle and Lawson applications is housed and maintained by the vendors, Siemens and Velocity, respectively. Consequently, both vendors, Siemens (Eagle) and Velocity (Lawson), have full access to the production and development environments. For the Eagle application, management performs a quarterly review of vendor access to help mitigate associated risk; however, documentation of the review is not retained. For the Lawson application, active monitoring of vendor access is not performed.

#### **Risk**

Without a formal change management process, it is difficult to ensure that proper segregation of duties is maintained and that the risks of unauthorized changes are minimized.

## Nassau Health Care Corporation

### Comments to Management (continued)

Allowing vendors the ability to develop and implement their production changes increases the risk that inappropriate or unauthorized changes may be implemented. Without a sufficient review of program changes to mitigate this risk, unauthorized application changes could be implemented and potentially remain undetected, thereby affecting the functionality and data integrity of the applications.

#### **Recommendation**

We recommend that management formalize and retain documentation related to control of reviewing changes performed for the Eagle application. In addition, management should perform a periodic review of changes made to the Lawson production environment based on the frequency of changes made to the applications. Vendors should be restricted from having full access to the production environment and controls should be implemented to require vendors to request and confirm access from the Corporation for the purpose of applying specific changes/patches/updates. This process would allow management to detect unauthorized changes in the production environment. Evidence and sign-off of management's review should be retained for a rolling twelve-month period.

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

The Eagle application is licensed through Siemens. When Siemens has a change to Eagle an LWP is issued detailing the reason for the change, the scope and specifying which modules are affected. These changes are not implemented until we have reviewed and approved the change. The change is first tested prior to being put into production. Customizations are performed either by our own staff or a Siemens' consultant under our direction. All historical changes made to the system are documented and available for review.

As the system is remote hosted, Siemens must have complete access to all environments; note that the Siemens' staff that perform systems programming tasks are not the same staff creating and implementing application patches and updates. In addition, security and application control settings are maintained solely by NUMC IT staff.

For Lawson, all updates to the application software are provided by the vendor. These updates are documented on the Lawson website for review. The updates are bundled into quarterly releases by our software hosting vendor, Velocity, and a schedule is released for the updates to be applied to the TEST and PROD environments. In-house Lawson programmers apply customizations to the Supply Chain programs as required by the needs of the business. These updates are then extensively tested by a testing team comprised of members from various organizations. Confirmation of the release of the update to the production environment is communicated to our Velocity account manager. Velocity will roll out the Lawson released

## Nassau Health Care Corporation

### Comments to Management (continued)

updates, and the in-house programming staff rolls out any customizations. Custom code is not handled by either the software vendor or the hosting vendor; therefore, the customizations must be applied to the Production environment by the in-house development programmers

The below information is taken from Velocity's RCO User Guide regarding their responsibilities in maintaining the Lawson system:

**Velocity VTS Lawson LSF 9.0.0 RCO User Guide** VTS 2010-1-10 INIT RCO User Guide LSF 900 Part 1 REV12 Page 17 of 111 Effective Date: 2010-Jan-01 Document Version: V11 Velocity Confidential

#### ***6.3. Velocity and Lawson Change Management tasks***

Velocity and Lawson perform the following change management procedures:

- Provide clients with software updates and/or enhancements; performs the change assessment, approval process, and scheduling; and performs extensive quality assurance testing for these software enhancements.
- Installs changes to correct specific problems associated with an event and implements these changes as soon as a solution can be incorporated within Velocity' change management schedule.
- Notifies clients of scheduled changes and schedules a time period for client verification of those updates.
- Notifies clients when these changes are completed.

Velocity tests the apply procedures for all changes, including emergency solutions to problems, before applying them at the client site. In conjunction with Velocity delivered updates, your facility may be required to perform some maintenance and verification tasks. You are responsible for verifying these changes within your facility. Your service desk advocate should log and monitor all changes.

Velocity has also provided documentation from their auditors, PricewaterhouseCoopers, for the 2010 fiscal year that they are compliant with the "Statement on Auditing Standards No. 70" (SAS 70) audit. This document states they are in compliance with the American Institute of Certified Public Accountants standards with regards to control objectives and activities for a service industry.

#### ***Logical Access Process***

*Logical Security - Administrative Users*

*(Systems Affected: Eagle, and Lawson)*

#### **Observation**

For the Eagle application, there is an excessive number of user IDs with level 9 privileges. There

## Nassau Health Care Corporation

### Comments to Management (continued)

is no monitoring control to detect unauthorized changes.

For the Lawson application, the vendor (Velocity) has administrative access (SecAdmin), within the application, granting it the ability to administer user access and full access to the application.

#### **Risk**

Vendors and others with privileged or excessive access accounts might make unauthorized changes within the system that might be undetected by management.

#### **Recommendation**

Privileged user access should be limited to appropriate individuals based on job functions. Policies and procedures should be implemented around the disabling and enabling of vendor accounts, such that the accounts are only activated on an ad hoc (as needed) basis. In addition, policies should outline procedures to monitor vendor actions while their access is enabled. Doing so would minimize the risks associated with potential unauthorized changes.

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

For Eagle, only one active ID outside of NUMC IT or Siemens has level 9 privileges. By license and contract we cannot limit Siemens' access to the system, however they are contractually responsible for control of their staff.

For Lawson:

1. The vendor's policy is not to provide unique system user ID's to its personnel.
2. When a third party consultant is required, specific user ID's are provided and are disabled at the termination of the assignment.

#### ***Logical Access Process***

*Logical Security – Access Assignment  
(Systems Affected: Eagle, and Lawson)*

#### **Observation**

For the Eagle and Lawson applications, new user access is granted by mirroring an existing user's access for the Eagle application. In addition, there is no formal review of user accounts to mitigate user access associated risks and to validate the appropriateness of user access within either the Eagle or Lawson applications.

## Nassau Health Care Corporation

### Comments to Management (continued)

#### **Risk**

When mirroring user access, a new user might be granted privileges that are not required for his/her current job responsibilities. Users with access privileges that are not required for their job responsibilities might result in improper segregation of duties and inappropriate access to data files.

#### **Recommendation**

The formal user access request process should include application-level authorities. In addition, management should encourage application custodians and business managers to review the list of active users and user access levels on a periodic basis (e.g., semi-annually).

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

Eagle access is determined by a user's supervisor according to the user's function. In those exceptional cases in which a user's needs do not match other users a new menu is created to meet the needs. When a user's job changes, requiring updated or eliminated access it is the supervisor responsibility to report the change to IT.

The Finance department reviews all Lawson user accounts on an annual basis.

## Nassau Health Care Corporation

### Comments to Management (continued)

#### Section 2

In connection with our audit of the 2009 consolidated financial statements, we delivered our management letter that contained detailed recommendations related to ITGCs. As part of our 2010 financial statement audit, we performed a review of the remediation actions related to our recommendations and their current implementation status. The detailed recommendations and the status summary are detailed below. For each issue, we have indicated the status of the remediation plan.

Summary of 2009 Recommendations	Current Status	Comments
<p><b><i>Change Management Process</i></b>  <i>Documentation of controls in change management process</i>  <i>(Systems Affected: Eagle and Lawson)</i></p>	Partially Implemented	<p>Formal controls are in place around the overall system development life cycle of a change. However, as noted in section 1, documentation is not retained.</p> <p>A monitoring control was put in place related to Eagle vendor access. However, formal documentation of management's review was not retained.</p>
<p><b><i>Change Management Process</i></b>  <i>Review of program changes after implementation and outsourced function not monitored</i>  <i>(Systems Affected: Eagle and Lawson)</i></p>	Eagle – Partially Implemented  Lawson – Not Implemented	<p>These comments are noted in the 2010 audit. See above for recommendations and management's responses.</p>
<p><b><i>Logical Access Process</i></b>  <i>Administrative user access</i>  <i>(Systems Affected: Eagle and Lawson)</i></p>	Eagle – Not Implemented  Lawson – Not Implemented	<p>We recommended that privileged user access be limited to appropriate individuals based on job functions. We also recommended that policies and procedures be implemented around the disabling and enabling of vendor accounts, such that the accounts are only activated on an ad hoc basis. In addition, policies should outline procedures to monitor vendor actions while their access is enabled.</p> <p>This comment is noted in the 2010 audit. See above for recommendations and management's responses</p>
<p><b><i>Logical Access Process</i></b>  <i>Users' access administration</i>  <i>(Systems Affected: Eagle and Lawson)</i></p>	Implemented	<p>There is a formal process to request the provisioning of access to applications, such as Eagle and Lawson, which requires approvals from the user's manager.</p>

Nassau Health Care Corporation

Comments to Management (continued)

Summary of 2009 Recommendations	Current Status	Comments
<p><b><i>Logical Access Process</i></b>  <i>Periodic review of user access</i>  <i>(Systems Affected: Eagle and Lawson)</i></p>	<p>Not Implemented</p>	<p>We recommended expanding the user access request process to include application-level authorities. In addition, we recommended that management encourage application custodians and business managers to review the list of active users and user access levels on a periodic basis (e.g., semi-annually).</p> <p>This comment is noted in the 2010 audit. See above for recommendations and management's responses</p>