NEW YORK CITY HEALTH AND HOSPITALS CORPORATION
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.Office of Internal Audits

TO: AUDIT COMMITTEE MEMBERS

FROM: Christopher A. Telano (VIA E-MAIL)
Chief Internal Auditor/AVP

DATE: December 5, 2013

SUBJECT: AUDIT COMMITTEE MEETING

Enclosed please find the agenda and related documents for the **Audit Committee Meeting** scheduled to take place on, **Tuesday December 10th, 8:30 AM in the 5th floor Board Room at 125 Worth Street.**

Please ensure, if you plan on attending the meeting, to bring the attached documents for reference purposes.

cc: Members of the Board of Directors
M.A. Stocker, M.D., Chairman of the Board
A. Aviles, President
A. Martin, Executive Vice President/Chief Operating Officer
L. Brown, Senior Vice President, Corp. Plan. Community Health & Intergovernmental Relations
A. Marengo, Senior Vice President, Communications and Marketing
B. Robles, Senior Vice President, Chief Information Officer
S. Russo, Senior Vice President & General Counsel
M. Zurack, Senior Vice President/CFO, Finance
D. Cates, Chief of Staff, Chairman's Office
T. Mammo, Chief of Staff, President's Office
P. Lockhart, Secretary to the Corporation
W. McNulty, Corporate Compliance Officer
J. Weinman, Corporate Comptroller
M. Katz, Senior Assistant Vice President, Revenue Management
J. Quinones, Senior Assistant Vice President, Contract Administration & Control
N. Doyle, Assistant Vice President, HR, Workforce Planning & Development
L. D. Curtis, Senior Vice President, South Manhattan Health Care Network
D. Soares, Senior Vice President, Gen+ Northern Manhattan Health Care Network
A. M. Sullivan, Senior Vice President, Queens Health Care Network
G. Proctor, Senior Vice President, North & Central Brooklyn Health Care Network
A. Wagner, Senior Vice President, South Brooklyn Health Care Network
W. P. Walsh, Senior Vice President, North Bronx Health Care Network
Executive Directors
Network & Facility Chief Financial Officers

AUDIT COMMITTEE
MEETING AGENDA

December 10th, 2013

8:30 A.M.

125 Worth Street,
Rm. 532
5th Floor Board Room

CALL TO ORDER	**Ms. Emily A. Youssouf**
• **Adoption of Minutes October 10th, 2013**	**Ms. Emily A. Youssouf**
ACTION ITEMS	
• **KPMG June 30, 2013 Management Letter**	**Mr. Jim Martell, Partner**
INFORMATION ITEMS	
• **Internal Audits Update**	**Mr. Chris Telano**
• **Compliance Update**	**Mr. Wayne McNulty**

EXECUTIVE SESSION

OLD BUSINESS

NEW BUSINESS

ADJOURNMENT

New York City
Health and Hospitals Corporation

MINUTES

AUDIT COMMITTEE

MEETING DATE: October 10th, 2013
TIME: 12:00 PM

COMMITTEE MEMBERS
Emily A. Youssouf, Chair
Josephine Bolus, RN

OTHER MEMBERS OF THE BOARD
Michael A. Stocker, MD

STAFF ATTENDEES
Antonio Martin, Executive Vice President/COO
Salvatore J. Russo, Senior Vice President & General Counsel, Legal Affairs
Deborah Cates, Chief of Staff, Chairman's Office
Patricia Lockhart, Secretary to the Corporation, Chairman's Office
Tamiru Mammo, Chief of Staff, President's Office
Paul Albertson, Senior Assistant Vice President, Central Office Operations
Donna Benjamin, Sr. Corporate Health Project Advisor, Central Office Operations
Jay Weinman, Corporate Comptroller
Christopher A. Telano, Chief Internal Auditor/AVP, Office of Internal Audits
Wayne McNulty, Corporate Compliance Officer
Gassenia Guilford, Assistant Vice President, Central Office Finance
Nelson Conde, Senior Director, Office of Professional Services & Affiliations
Devon Wilson, Senior Director, Office of Internal Audits
Steve Van Schultz, Director, Office of Internal Audits
Zhanna Kelley, Assistant Director, Office of Internal Audits
Carol Parjohn, Audit Manager, Office of Internal Audits
Frank Zanghi, Audit Manager, Office of Internal Audits
Sonja Aborisade, Associate Confidential Examiner, Office of Internal Audits
George Asadoorian, Supervising Confidential Examiner, Office of Internal Audits
Cynthia McIntosh, Supervising Confidential Examiner, Office of Internal Audits
Roger Novoa, Supervising Confidential Examiner, Office of Internal Audits
Delores Rahman, Supervising Confidential Examiner, Office of Internal Audits
Armel Sejour, Supervising Confidential Examiner, Office of Internal Audits
Satish Malla, Confidential Examiner, Office of Internal Audits
Rosemarie Thomas, Confidential Examiner, Office of Internal Audits
George Payyapilli, Confidential Examiner, Office of Internal Audits
Gillian Smith, Confidential Examiner, Office of Internal Audits
Alice Berkowitz, Assistant Director, Corporate Budget
Adeline Monteau, Internal Auditor, MetroPlus Health Plan, Inc.
Darren Ng, System Analyst, Corporate Budget, Central Office
Kiho Park, Associate Executive Director, Queens Health Network
Alex Scoufaras, Associate Executive Director, North Bronx Healthcare Network
Walter Otero, Director, North Bronx Healthcare Network
Ellen Giesow, Chief Affiliation Officer, North Bronx Healthcare Network
Victor Bekker, Chief Financial Officer, Lincoln Medical & Mental Health Center
Paul Pandolfini, Chief Financial Officer, Southern Brooklyn/Staten Island Health Network
Alurotimi Diyaolu, Controller, Bellevue Hospital Center
Dorothy Buzzeo, Associate Executive Director, Lincoln Medical & Mental Health Center
Darren Collington, Associate Director, Coney Island Hospital
Mercia Franklin, Associate Director, Coler/Goldwater Specialty Hospital & Nursing Facility
Ronald Townes, Associate Director, King County Hospital Center

OTHER ATTENDEES
PAGNY: Luis R. Marcos, MD, Anthony Mirdita, John McDermott, Sabina Zak, Allan P. Vergara
PHYCARE: Peter Gordon, Sudha Pentyala, Sandip Mukherjee

OCTOBER 10, 2013
AUDIT COMMITTEE OF THE BOARD OF DIRECTORS
NYC HEALTH & HOSPITALS CORPORATION

An Audit Committee meeting was held on Thursday, October 10, 2013. The meeting was called to order at 12:00 P.M. by Ms. Emily Youssouf, Committee Chair. Ms. Youssouf asked for a motion to adopt the minutes of the Audit Committee meeting held on September 12, 2013. A motion was made and seconded with all in favor to adopt the minutes. An additional motion was made and seconded to hold an Executive Session of the Audit Committee to discuss potential litigation.

Ms. Youssouf moved onto an information item which is an update from Internal Audit.

Mr. Telano saluted the committee and directed them to pages three and four of the briefing which summarizes the external audits being conducted by the City Comptroller's Office. Compared to last month there is really no significant progress to report on. As a matter of fact, we have not heard from them in over a month regarding their audit of Navigant.

Mr. Telano moved on to page five, the completed audits since September. The first four audit reports we will discuss are related to PAGNY. We will begin with the PAGNY bank accounts audit and he asked Dr. Luis Marcos and Anthony Merdita of PAGNY to approach the table.

Ms. Youssouf asked them to introduce themselves, they did as follows: Luis Marcos, CEO of PAGNY; Anthony Merdita, Chief Financial Officer.

Mr. Telano continued by stating that he'll briefly go over the findings related to the bank accounts. The first one was that the control over the bank accounts was not adequate; the oversight of the bank accounts is segregated. Some of them are monitored at Lincoln and some of them are monitored at the PAGNY finance department at Jacobi. As a result one bank reconciliation was done at both sites creating a lack of coordination. There was also confusion over the total number of accounts. This led us to contact TD Bank and Chase in order to determine the exact number of accounts. The last issue had to do with the signing authority related to the accounts; three individuals who were no longer employed by PAGNY still had signing authority, and one individual, a separate individual had online access to the funds. The other findings have to do with the bank reconciliations – they were not properly prepared. For example, we found 110 outstanding payroll checks totaling $340,000 that were issued before June 30, 2012. Since checks become void after six months, these should not have been outstanding, they should have been void. We also found accounts payable checks from 2011 outstanding. Within the past reconciliations there were 28 entries without proper description as to the check number or any other identification. The bank reconciliation done at Lincoln was not being signed off by a supervisor indicating that they were reviewed.

Ms. Youssouf asked the PAGNY representatives to give an update on the progress.

Dr. Marcos stated that since June they have made significant improvements and also they have been able to recruit very talented executives, including Mr. Merdita and Mr. Reggie Othum their new Chief Human Resources Officer. They also have their first lawyer Walter Ramos and he thinks that they have the team they need to address all of these issues which are very serious and of great concern to them.

Dr. Marcos said that he would like to thank the help they have gotten from Tony Martin, Marlene Zurack and also Nelson Conde who has been very helpful. Dr. Marcos stated that he forgot to mention that they also have a new Comptroller Joe McDermott and said that Mr. Merdita is the right person to address the specifics of the audit.

Mr. Merdita saluted the committee and stated that he came in June and is completing his fourth month with PAGNY and it is the second time at the Audit Committee. With regard to some of the specific things that Mr. Telano mentioned – there were some challenges. As mentioned in the report, at the moment finance is located at three different sites with the bulk being at Jacobi. There is the Lincoln staff and sometimes that presented a little oversight in some of the logistics that needed to get cleaned up; as well as at Metropolitan which is where they are at. The good news is that at the end of the month they will be at one site.

Dr. Stocker asked where the site is. To which Mr. Marcos answered that it would be 135th Street in Harlem, they have been able to identify a very good location.

Dr. Stocker asked if it is an Agency space. Mr. Marcos responded yes, that the whole central office for PAGNY will be located there.

Mr. Merdita continued by stating that some of the things they needed to pull together, was to put in place policies and procedures. Although they are at different sites Mr. McDermott signs off on all of those reconciliations. The issue with the check number being missing has all been rectified. They have put in place several policies and procedures with regard to all of the things that are in the report, check requests have been put in place are being followed. The challenges were the different systems, different GLs, which now have been rolled into one. Now going forward they are in a good position to not only have made these corrections, but more importantly continue to refine because there are certain things not mentioned in these reports which needed to also address.

Ms. Youssouf asked if all of the bank accounts and the signatories have been cleaned up. Mr. Merdita responded that once they got hold of the report, they made changes so that all the individuals that left were taken off. They did a full sweep of all the signature cards and at the moment they have sign in authority for the folks who are designated to sign.

Ms. Youssouf asked if there is a process in place that if a signatory leaves, their names are pulled right away. Mr. Merdita said yes and the number of folks that have signatory cards is only four. He believes that they have a good handle on that.

Ms. Youssouf stated that that is great and asked if they are taking care of the other things such as outstanding payroll checks and other things. Mr. Merdita stated that they went through every single check and either reissued them, canceled them or voided them.

Ms. Youssouf asked if going forward they have set up some sort of automatic tickler or something. Mr. Merdita answered yes, Mr. McDermott's office reviews all the outstanding checks on a monthly basis. In addition, they are five affiliates rolled into one; everyone with their own way of doing business came in along with their bank accounts. We are down to 17 bank accounts from 28 and we think we can bring that down. Although it will not come down that much because there are five faculty practices and there are multiple grant researches that have to be kept separate.

Ms. Youssouf asked if they are automated, because the concern is that how you are going to be monitoring all these 17 different bank accounts to run smoothly. To which Mr. Merdita answered that it is a little of both, a little automated and a little manual. Then Ms. Youssouf asked if the manual part is memorialized somewhere in a process and procedure so that if there is any change in administration within the organization the next person will know what has to occur. Mr. Merdita responded yes, they do.

Ms. Youssouf asked if there were any questions on this topic. She then asked Mr. Telano to continue.

Mr. Telano continued by stating that the next audit is also regarding the PAGNY affiliation. This one is related to Lincoln and since one of the issues prominent throughout the other audits relates to the recalculation not being performed timely, he asked Mr. Nelson Conde from the Office of Professional Services and Affiliations to approach the table.

Mr. Telano stated that the two primary issues are; one that the recalculation and other documentation that is required to be completed per the affiliation agreement for fiscal year 2012 was not done as of the date of this audit. The other issue is related to the 18 subcontractor agreements that we reviewed, 10 of them had expired but the affiliation continued to do business with the vendors.

Ms. Youssouf asked for someone give an explanation. Mr. Conde stated that they have been working very closely with the affiliates and the facilities to bring these documents up to speed. Our colleagues in Corporate Finance have been collaborating with us to get this done as well. He expects that by the end of the month to receive outstanding recalculations to the facilities for fiscal years 2011 and 2012. That is where we are at in terms of documentation.

Ms. Youssouf asked what type of subcontractor agreements are they. Mr. Merdita responded that they are for various services like orthopedic services, radiological, mostly medical services; things that we do not have in-house at the various sites. Ms. Youssouf then asked what procedures have they put in place to make sure that there is something like a tickler system to let you know when a contract is about to expire. Mr. Merdita stated that these contracts kept rolling forward without being taken a look at. The Chief Affiliation Officer, Sabina Zak at Coney Island has already forwarded all of the contracts to Mr. Ramos our general counsel. Before forwarding them, she went through each one of the contracts with the medical director at Coney Island as well as the finance staff. Once they got an inventory and agreed on the contracts, they forwarded them for review from a legal perspective by Mr. Ramos. Coney Island will be done within the next two weeks and about 80 percent of them have gone through legal review. The plan is to renew them for a year and have what you mentioned a tickler; we do not have those contracts that automatically renew. In addition, we are implementing software to do exactly what you described. At the moment we have taken an inventory and it is on a spreadsheet through an archive vendor.

Mrs. Bolus stated that at Coney Island three of the vendors were operating with prior contracts and they had no extended agreements, renewal clauses, but they kept using them. Also, you have some of them which have been in existence for 7 to 8 years but no documentation of the assessment of them. These are things that bother me, that is completely wrong and you have not addressed that. Mr. Marcos responded by stating that it bothers him tremendously. In most of these contracts he personally has asked the facility if they still need this service. The answer has always been yes, he has not found one event where the facility would say no.

Mrs. Bolus asked what was documented. The assessment that they are absolutely needed is not documented. Also, it is not brought back to the Board to reevaluate whether we want to continue this or not. She does not understand why the contracts were just rolled over and kept on doing it.

Dr. Marcos stated that it is obviously neglect. Mrs. Bolus said yes, it is and that has not been answered and nothing has told her that it will not continue.

Mr. Martin said that PAGNY was not in existence 8 years ago. This lays at the feet of the facilities to having contracted for these services. The affiliate office will make sure from that point on that those contracts are up to date and renewed. Then Mr. Martin added that this is a commitment the committee has from him – that he was not aware of this.
Mrs. Bolus stated that Mr. Martin was not there either. Mr. Martin said that he assumes responsibility and it should not lie at the affiliate office.

Ms. Youssouf said that she thought that they had a broad discussion about contracts in making sure that everything was loaded in and there was a tickler system created across the board. Can someone clarify that distinction?

Mr. Russo stated that these are not HHC contracts; these are subcontractors between PAGNY and a group that will either provide neurosurgery, orthopedics. It is their subcontract in order to fulfill their commitment to us to provide these range of services. They do not have these physicians on staff, and it may not be appropriate to have all these physicians on staff because they are very expensive specialties, but they are needed in certain instances.

Ms. Youssouf then asked if they started off as contracts with the facilities. To which Mr. Martin said that that is what he assumed, but Mr. Russo is saying something different.

Mr. Russo said that they may have been contracts that the prior affiliate had.

Ms. Youssouf then asked if PAGNY had done some kind of evaluation that these contractors are in fact the best contractors and their fees for service are the appropriate fees for service.

Dr. Marcos responded that yes, they have and they bring it to the Joint Oversight Committee (JOC) meetings. It has taken a while because at times contracts came up that they did not even know they were there. In every instance that he has been a part, the facility, meaning HHC hospital requested that the contract be continued. That it was essential for the management of the patients. We will expand on what we are doing to prevent it from happening again.

Mr. Merdita commented that with these contracts they have taken a full inventory of the Coney Island and the Lincoln so far. They have been discussed with the hospital as well as PAGNY staff. The onus falls on us to make sure that they do not automatically renew them. The assessment of whether we need them at Coney Island has been done; inventory has been taken and is now going to legal review.

Ms. Youssouf added that she is assuming and hoping from everything you are saying that all of the findings from internal audit is in fact what is going to help guide you for any missing pieces and that the most important thing that we have learned here from the central office is that whatever procedures you put in place need to be documented somehow in some kind of handbook or guidance book so that there is a road map ten years from now when changes need to be made. She also said that she would strongly urge them to do that because it is important.

Dr. Marcos responded by stating absolutely – you are 100 percent right, and we have already started that process and we used it during Joint Oversight Committee meeting where the hospital and PAGNY get together and we explore every item and to ensure that the hospital continues to need the services of these physicians from the outside and that the monies we are paying are appropriate.

Dr. Stocker asked if they are using GHX to register and code the contracts. To which Mr. Merdita responded no, at the moment they have a spreadsheet of all of them with the column and the date and when notification is due which is in the legal department with Mr. Ramos. We are in the process of bringing in software.

Dr. Stocker added that HHC has a system for tracking contracts and was wondering if it would not be better to use this kind of system. Mr. Merdita said that they have not signed on the dotted line and asked what the name of the system is. Dr. Stocker responded GHX. Mr. Marcos said that they will explore it. Mr. Martin added that they should speak to him and that HHC does have an existing system. Mr. Marcos stated that they will follow up. Ms. Youssouf said that that was a great suggestion.

Mr. Telano continued with his presentation by stating that on page eight is Coney Island. We have spoken about the first two issues which are the recalculation and the subcontractors. The only other issue is related to a segregation of duties finding and that was that two individuals in the PAGNY human resources department also have access to the payroll system which they can enter and edit data – he believes that was resolved.

Mr. Merdita said yes, it was. Since then we have done a full sweep to make sure that everyone has either edit or read only access for ADP. We have put in a policy manual that states the only way we can add or subtract anybody on payroll in ADP is through a form which each of the chief affiliation officers would need to sign. In addition, a monthly report goes to each of the officers until we implement a new ADP which will be the first quarter of calendar year 2014. The only two people who can actually add on the system itself is the payroll director, Mr. Peter Garske, or his assistant director, so we have certainly put a lot of controls in this space as we needed to.

Ms. Youssouf added that you need to keep the records so everyone is aware. The other thing is, as far as who is being used for the background checks because that is a little distressing that it took so long that 34 out of the 50 employees who were reviewed HR did not perform criminal background checks in a timely manner. Some of them took up to a year and what are you doing about that. Mr. Marcos said that it has been corrected and to his knowledge they all been done in a timely basis.

Dr. Stocker asked that there are all these accounts and huge amounts of variation in terms of how the accounts were handled across all the various organizations, is there any evidence of fraud or self-dealing in either things that you found. To which Mr. Marcos responded that to their knowledge, despite the obvious sloppiness in managing this company, they have not found any situation of fraud or abuse in terms of payroll, bank accounts or the contracts.

Dr. Stocker said that that is reassuring. It is worth pointing out that you have a new team and new organization and a new start.

Mr. Merdita commented that CohnReznick who are their outside auditors did an internal audit control and found the same thing that Mr. Telano's team found; just multiple sites need to standardize. It was another check that was done and the same conclusion, we need to tighten up.

Ms. Youssouf asked if Mr. Telano has access to those audit reports, because he is auditing PAGNY for the Committee and it would be great if he could have access to whatever outside auditors PAGNY uses; just as a cross checker. Mr. Marcos said yes, he will follow up.

Ms. Youssouf asked if there is any more for PAGNY. To which Mr. Telano responded no, but regarding the background check it had to do with North Bronx Network and that would conclude PAGNY. We have one other report, Phycare. Ms. Youssouf asked if that was related to PAGNY. Mr. Telano said that he did not know.

Mr. Martin added that Phycare is sort of like the billing arm for a number of the different faculty practices that exist at the PAGNY facilities – that is the relationship.

Mr. Stocker said that that is not unusual in these kinds of organizations. These are physicians which are separate from the hospital. Mr. Telano added that they review the billing, the coding, the collection and the overall accounts receivable, and management. The CEO of Phycare is here.

Ms. Youssouf thanked the PAGNY representatives and stated that we look forward to the continued improvements that you all are making. Then she asked the representatives of Phycare to introduce themselves. They did as follows: Peter Gordon, CEO; Sudha Pentyala, Sr. VP/Director; Sandip Mukherjee, General Counsel/Compliance Officer.

Mr. Telano continued by stating that overall our review found control weaknesses in the documentation and the recordkeeping over the payments and the receipts process. For example, checks were not being restrictively endorsed and not all receipts could be accounted for in their payment log entry. At Lincoln, the receipt book was kept unsecured and out in the open. At Harlem, the receipt book still had the Harlem Affiliation name on it instead of Phycare. At Metropolitan, there were no checks and balances to insure that the monies that were being transferred from the site to the main office was the amount being sent and the amount being received.

Mr. Gordon stated that we do not get a lot of money coming in through the actual sites. Most of the money goes directly into a lock box and sent directly to the bank. The receipts that we do receive at the sites are patients who receive a statement and come in with a check. Those checks are made out payable to the practice plan directly not payable to cash. Actually, we only receive maybe, for the full year, about $5,000 in cash that came into all the sites. We have since then implemented a policy that we do not want to take cash. We ask patients to come back with a money order or something like that. The checks that came in that were payable to each of the practice plans are sent to the central accounting office. What Mr. Telano is referring to is sort of compliance with our own internal policy and we have a pretty robust policy that requires that when the checks are presented to the site that the site actually endorse the check for deposit only. That was being done in the central accounting office not at the site where the checks were taken. I think that during the audit they confirmed that those stamps were being used. There was not any real issue of any misappropriation; it was that we were not following the rigorous policy that we put in place. As for the voided items, our receipts are three-part receipt books; the top copy goes to the patient. Again, this is a situation where we had a policy that was pretty stringent; if we void a receipt we must have all three copies back so we know we have control of the receipt. There are circumstances that if the patient gives us a check, we deposit it, the check bounces, we will go ahead and void that receipt out on the copy we have. But we have no ability to get the original receipt back from the patient. Those are some of things they noticed.

Ms. Youssouf asked if they take credit cards, debit cards or cash. Mr. Gordon responded no, that right now we are asking for only money orders. We never really had patients that came in with cash – very rarely cash. We do have the ability to take credit cards through the collection process. If somebody came in and that is their only means of payment, we could make arrangements.

Ms. Youssouf added that she wants to make sure from the patient's vantage point. Mr. Gordon commented that what we are finding is that we do not have a lot of people who come in and offer us credit card payments, and the cost of maintaining a merchant service account sometimes outweighs the value of taking credit cards.

Dr. Stocker asked how long has he being doing this. To which Mr. Gordon answered for a while – 12 years that we have been with DBMA and then took on Metropolitan back in 2005 and Harlem back in 2006.

Dr. Stocker asked if DBMA is Downtown Bronx. Mr. Gordon said Downtown Bronx Medical Associates.

Dr. Stocker asked if the future is you will now do the billing for all of PAGNY. To which Mr. Gordon responded all of PAGNY and a few others outside. Then Dr. Stocker asked if it was other medical groups. Mr. Gordon said other medical groups. We are now doing Queens and are about to do Kings County.

Dr. Stocker asked if any groups outside of HHC. Mr. Gordon answered Bronx Lebanon and a couple of clients outside of HHC.

Ms. Youssouf asked if they were going to have a contract with PAGNY or a contract with the hospitals. Mr. Gordon responded that what was created was the practice plans are independent companies and those companies are Harlem Medical Associates at Harlem and Downtown Bronx Medical Associates. These practice plans have a contract with Phycare.

Dr. Stocker asked if they are organized as a corporation. To which Mr. Gordon responded C Corp. Dr. Stocker asked if they are privately owned. Mr. Gordon said technically right now it is owned by DBMA – a subsidiary of DBMA.

Dr. Stocker asked if he has any observations, since you have observed the process of forming PAGNY and consolidating groups. Mr. Gordon responded that he actually created it. He thinks it is heading on the right track; it was bumpy for a couple of years, but he thinks that with Dr. Marcos and the team he has created we are seeing a turnaround and very optimistic of its success going forward. Like any new company, what we have always said was this was a 200 mile train and everyone just jumped on. Never really slowed down as all these groups merged into PAGNY, and that was part of the initial issues, that we never had time to breathe. I think now we are turning the corner, starting to slow down and going to be successful.

Dr. Stocker asked if you think of yourself as a team partnered with HHC. Mr. Gordon said that they have always considered themselves part of the family.

Ms. Youssouf asked Mr. Telano if there was anything else regarding Phycare. Mr. Telano said that that was it, and then stated that there was one more thing regarding the briefing on page 11, which is an overview of the Auxiliary audits that are being conducted by the accounting firm of Loeb and Troper. As you can see, 19 of the 22 auxiliaries are completed and only three of them have issues. Two have one issue and East New York had five issues of which three were repetitious, but they had hired a new permanent president and it looks like they are on their way to resolving any issues. We saw an improvement in the latter part of the year compared to the beginning of the year when they had a temporary president. We feel confident that these issues will be resolved by the next audit.

Mrs. Bolus asked if they have a director yet. Mr. Martin answered that they have a new head of the auxiliary, a new president. Then Mrs. Bolus asked not a director? Mr. Martin responded that when you say director, director of the facility itself? Mrs. Bolus said the person that has to work with the auxiliary. Mr. Martin said that he did know and would follow up. Mrs. Bolus added that please do because that would mean the auxiliary would be in limbo. Then Mr. Telano said that that concluded his presentation.

Ms. Youssouf thanked Mr. Telano and asked if Mr. McNulty had anything for the committee.

Mr. McNulty answered yes, saluted the Audit Committee of the HHC Board of Directors (the "Audit Committee" or the "Committee"). Mr. McNulty then started with page three of his report - - compliance training efforts. He informed the Committee that the compliance training period started on January 1, 2012 and ended on June 30, 2013. He added that there was a grace period that granted an extension to September 16, 2013. Mr. McNulty further commented that the Office of Corporate Compliance ("OCC") noted marked increases in compliance training during the grace period. Mr. McNulty stated that provisions have been made to schedule live training for those health care professionals who do not have access to a computer for training purposes. According to Mr. McNulty, personnel who failed to take the course as of the September 16th deadline were notified by the OCC to promptly take the course. Mr. McNulty stated that he personally placed numerous calls and contacted numerous directors to ensure that their subordinates underwent compliance testing. Mr. McNulty added that these efforts increased testing significantly.

Mr. McNulty moved forward by turning his attention to section 1B of his report to discuss the preliminary results of the compliance training. Mr. McNulty first discussed the results of the physicians' training module. Specifically, Mr. McNulty stated that by July 1, 2013, fifty percent (50%) of the physicians corporate-wide had completed the training, and as of October 7, 2013 eighty-two (82%) percent had completed the same. Mr. McNulty continued by providing that the health care professionals module had a forty-seven (47%) percent completion rate on July 1, 2013 and an eighty-four (84%) percent completion rate by October 7, 2013. He further informed the Committee that, for the group 11 general workforce module, seventy-five (75%) percent of affected personnel had completed the same by July 1, 2013, and as of October 7, 2013 ninety-five (95%) percent had completed the requisite training. Mr. McNulty pointed out to the Committee that training completion rates continue to grow. He added that his goal was to achieve ninety-five (95%) training completion across all three modules within the next couple of weeks.

Mr. McNulty continued by going over Section 1C of his report - - Board of Directors (the "Board") Compliance Training. Mr. McNulty stated that compliance training for Members of the Board was available and that the corresponding training period was scheduled to end the first week of November. Mr. McNulty provided that several Members of the Board have already completed the training through the PeopleSoft system.

Mr. McNulty then moved on to item number two, the HHS self-identification of corporate-wide risks. Mr. McNulty stated that, since June of 2013, sixteen (16) different Network/Facility compliance committees convened to identify and score Network and/or Facility specific risks. He continued by adding that OCC made significant progress in identifying and prioritizing corporate-wide risks. He informed the Committee that the Executive Compliance Workgroup ("ECW") convened in July of 2013 and identified and scored several corporate risks. He mentioned that the ECW convened again on September 11, 2013 to prioritize previously identified corporate risks and Network/Facility risks. Mr. McNulty stated that the process has led to the ongoing development of an interim draft fiscal year 2014 Corporate Compliance Work Plan ("FY14 Work Plan"). Mr. McNulty stated that the FY14 Work Plan was expected to be completed in a couple of weeks.

Mr. McNulty continued with his report by turning to the staffing update. He stated that there was one vacant compliance officer position in the North Bronx Healthcare Network. He advised the Committee that the recruitment process for that position had commenced.

Mr. McNulty continued with his report by discussing the monitoring of excluded providers. According to Mr. McNulty, the OCC was informed on September 9, 2013 that a Bellevue Hospital Center ("Bellevue") attending dentist, who was a sessional employee, appeared on the U.S. Department of Health and Human Services Office of the Inspector General's ("OIG") most recent list of excluded providers. Mr. McNulty informed the Committee that the excluded employee no longer provides services at Bellevue. He stated that the Finance Department was in the process of determining the exact amount of payments that would have to be reimbursed to the Federal Government or private payors. Mr. McNulty stated the refund of payments appeared to be less than $500 at this point. He closed by stating that there were no reports of excluded providers at the other HHC facilities.

Mr. McNulty asked the Committee if there were any questions; after a brief pause, Mr. McNulty concluded his report.

Ms. Youssouf thanked Mr. McNulty, and then indicated that the Committee was going into Executive Session. (Executive Session was then held).

Ms. Youssouf stated that they were out of the Executive Session. They discussed matters related to potential litigation against the Corporation and then asked if there were any old business or new business.

There being no further business, the meeting was adjourned at 1:07 P.M.

Submitted by,
Emily Youssouf-Chairperson-Audit Committee

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December 10, 2013

The Audit Committee of the Board of Directors
New York City Health and Hospitals Corporation

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of New York City Health and Hospitals Corporation (the Corporation), a component unit of the City of New York, as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the Corporation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the 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.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Corporation's organization gained during our work to make comments and suggestions that we hope will be useful to you.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

NEW YORK CITY
HEALTH AND HOSPITALS CORPORATION

Matrix of Observations

June 30, 2013

Network	Facilities Audited in 2013	Information Technology	Accounts Receivable and Patient Revenue	Affiliation Contracts	Construction Management	Corporate Compliance Program	Payroll and Human Resources	Materials Management	Cash Receipts	Industry Issues
Corporate				X	X			X		X
Generations + Northern Manhattan	Harlem Hospital Center							X		
	Segundo Ruiz Belvis D&TC							X		
South Manhattan	Bellevue Hospital Center							X		
	Coler Memorial Hospital							X		
North Brooklyn	Woodhull Medical & Mental Health Center						X	X		
South Brooklyn	Sea View Hospital Rehabilitation Center and Home							X		
Queens	Elmhurst Hospital Center							X		

Corporate

Affiliation Contracts

Observation (Repeat Comment)

Affiliation contracted services is a significant expense for the Corporation and the monitoring of the expenses associated with these contracts requires the cooperation of various departments both within and outside the Corporation.

We noted the following during the course of our test work in conjunction with the review of the compliance audits performed by HHC's Internal Audit:

- Several of the contracts were executed after the commencement of the contract period.
- Recalculation documents are not prepared on a timely basis resulting in potential future adjustments. Additionally, an affiliate did not provide fee statements as required by the contract.
- Similar to the prior year, the compliance audits identified instances where there were insufficient or inadequate evidence of proof of services rendered due to missing timesheets; instances where there were no policies or controls over timekeeping leading to unauthorized alternations and approval of timesheets; instances where there were incorrect recording of sick time. Additionally, in the current year there was a lack of controls over bank reconciliations, lack of documentation surrounding background checks which led to instances of the inability to verify performance of background checks, and terminated employees retained access to various systems.
- DBMA affiliation and PAGNY affiliations for Kings County Hospital and Renaissance did not provide a response to the audit confirmation requested by the Corporation.

Recommendation

KPMG recommends that:

- Affiliation contracts should be executed prior to commencement of the contract period.
- Reconciliations between the affiliate and the facilities should be performed timely in accordance with the contract.
- Management should work with the affiliate to ensure that the contract terms are met whereby the affiliate is required to provide complete and accurate timesheets for service providers working under the affiliation contract as well as the completion of all required forms and reports. Additionally, management should work with the affiliate to ensure that all terminated employees' access to affiliate systems is removed upon termination.

Management Response

HHC continues to strive to have all affiliation extension agreements executed before the beginning of the contract term. With the exception of PAGNY agreements, all 2013 contracts have been executed. During 2013, HHC and PAGNY have executed a Letter of Intent outlining the terms of the fiscal year 2013-2015 contract. The contract will be executed shortly.

Management agrees that final settlement reconciliations (recalculations) should be completed in a timely manner. During fiscal year 2013, HHC executed the fiscal year 2012 reconciliation with Mount Sinai School of Medicine, SUNY Downstate, and the fiscal year 2011 January-June NYU Woodhull/Cumberland settlement. Due to Super Storm Sandy, the fiscal year 2012 NYU reconciliation was delayed. Draft recalculation documents are completed and should be executed shortly. HHC and PAGNY are working to complete the fiscal year 2011 and 2012 recalculation documents by the first quarter of calendar year 2014. The fiscal year 2013 settlement documents will be completed by the end of fiscal year 2014.

The facilities, Central Office, and outside legal counsel are working with prior affiliates to complete the final settlement recalculations and the disaffiliation process by the end of fiscal year 2014.

Management and one of its affiliates have developed an interactive computerized budget management system to facilitate the electronic reconciliation of payroll data and expedite the budget reconciliation process. This system should be in effect during fiscal year 2014.

HHC will continue to work with affiliation senior management to ensure that contract terms are met.

Construction Management

Observation (Repeat Comment)

There have been several major construction projects conducted by the Corporation that have resulted in significant cost over-runs from the original established budgets for the projects.

Recommendation

KPMG recommends that management analyze all aspects of the construction management process and determine ways to eliminate and/or reduce cost over-runs.

Management Response

The Office of Facilities Development (OFD) has now implemented new processes that validate scope and construction elements. Standard work has been developed for reviewing the scope of the project, the program plan, the bidding documents, and the estimation of costs. Management also revised its operating procedures to include OFD's review of construction procurements. In addition, HHC is exploring the use of risk-oriented contract management services to mitigate any potential construction cost over-runs.

Observation

During the course of our test work, we noted that the construction in progress balance at year end did not include approximately $16 million of expenditures incurred related to construction on the major modernization of Henry J. Carter Center.

Recommendation

KPMG recommends that management implement a process to monitor all construction projects in order to ensure that all expenditures related to the projects are included in construction in progress and properly capitalized when the project is complete.

Management Response

Management has developed several new procedures to ensure updated records are used for recording project expenditures. The new procedures include stronger communication between the Office of Facilities Development and the Corporate Comptroller's Office on the status of project completion. This will ensure that HHC accrues all related construction appropriately.

Materials Management

Observation

During the course of our test work, we noted that purchased items are received at the departmental level and there is no centralized receiving department to ensure that the items that were delivered correspond with the purchase order. KPMG noted that in many cases, the individual receiving the asset items is the same individual who orders the items, resulting in a lack of segregation of duties. KPMG notes this could allow for delivery of incorrect/unauthorized items.

Recommendation

KPMG recommends that management implement a process to ensure proper segregation of duties between the individuals who order asset items and the individuals who check-in items when they are received.

Management Response

Management recognizes the importance of ensuring segregation of duties as it is imperative to maintaining proper internal control. The Corporate Comptroller's Office has begun to educate senior leadership in the finance and supply chain departments on the importance of this control. Education on basic internal controls related to segregation of duties will continue through the Corporate Comptroller's Office. In addition, the Office of Internal Audits will add a review of this internal control to their audit program.

Observation

During the course of our test work, we noted one instance in which an item related to a grant was stamped as received and recorded as an expense and a payable in June 2013, however, the item was not received or invoiced until August 2014. The item related to fiscal year 2014, and therefore should not have been recorded as an expense in June 2013. When management brought this to the attention of KPMG, the expense was reversed.

Recommendation

KPMG recommends that management implement a process to ensure that all items are received prior to being stamped as received and recorded as an expense in the period in which the expense is incurred.

Management Response

Management has trained departmental staff in the process of receiving and has separated the ordering and receiving functions among staff for better internal control. Verification of received goods requires the signature of an individual that validates the actual receipt and ensures that expenses are properly recorded in the correct period.

Site Visits

Observations

During the course of our test work, we noted the following errors in compliance that did not rise to the level of control deficiencies and therefore, did not alter our planned audit approach:

- Payroll and Human Resources

    1. One manager at Woodhull Medical and Mental Health Center worked two consecutive tours of duty and was overpaid for one hour over the 35 weekly hours permitted for managers. KPMG notes this resulted in inappropriate payment.

- Materials Management

    1. A fixed asset item at Woodhull Medical and Mental Health Center was disposed of but remained on the fixed asset subledger. KPMG notes this resulted in an improper fixed asset balance.

Management Responses

- Payroll and Human Resources

Management has determined that overpayments may occur for the Administrators on Duty (AOD) that are paid on an hourly basis. Training of all AOD will be conducted on the proper completion of time sheets when multiple shifts are worked. Additionally, management will periodically check on the adherence to this process.

- Materials Management

Since the recent transition of personnel in the Finance department, new procedures have been developed to include the preparation and approval of the Relinquishment Form. This will be reviewed by the facility Controller's Office and requires the physical observation of the equipment and reconciliation to the Fixed Asset Management System.

The Audit Committee of the Board of Directors
New York City Health and Hospitals Corporation
December 10, 2013

Industry Issues

Audit Committee and Broader Governance Issues

In 2013, audit committee agendas have been shaped by continued economic uncertainty, globalization, digitization, and increased government regulation. Focused, yet flexible agendas and exercising judgment about what belongs and does not belong on the committee's agenda, and when to take deep dives is critical. To help audit committees meet the governance challenges, KPMG has developed a publication titled "Audit Committee Priorities for 2013." Two areas in which audit committees can play an important role in supporting the board on a broader range of governance include:

Set the tone and closely monitor leadership's commitment to the tone, as well as the culture throughout the organization.

The year ahead will be one of tremendous pressure and change. In this environment, it is more important than ever to be acutely sensitive to the tone from (and example set by) leadership, and to reinforce the culture of the organization, i.e., what the company does, how it does it, and the culture of compliance, including a commitment to financial reporting integrity throughout the organization. Is the audit committee (and board) hearing views from those below senior management and outside the company? Are there dissenting views? Recognize when asymmetric risk--the over-reliance on senior management's information and perspective--is too high. Does the information provided by management, internal audit, and external auditors tell a consistent story? Make time to visit company facilities and attend employee functions. The tone and culture throughout the company's global operations and the extended organization is critical. How confident is the audit committee that it has a good sense of the culture in the company's global operations--far away from headquarters?

Consider whether the board has the right composition and committee structure to provide effective risk oversight.

In addition to their oversight responsibility for financial reporting risk, many audit committees have oversight responsibility for the company's enterprise risk management process. Over the years (by design or default), many audit committees have also assumed responsibility for other major risks facing the company such as risks posed by globalization, cyber security and IT risks, and other operational risks, as well as legal and regulatory compliance. Given the substantial time commitment required by its core oversight responsibilities, does the audit committee have the time and expertise to oversee so many critical risks beyond the core? Is there a need for another committee (e.g., risk, technology, compliance)? Are risk responsibilities clear? Board and audit committee effectiveness and accountability hinge on honest self reflection, meaningful board assessments, and continuing director education. In addition to board oversight processes, take a hard look at board and audit committee composition, term limits, independence, and leadership. Is there a need for a fresh set of eyes or a greater diversity of views?

Healthcare Transformation

Healthcare within the United States, with its high costs and variable outcomes, is undergoing an unprecedented healthcare transformation, driven by a growing number of economic, demographic, technological, and regulatory factors. Over the next decade, all parts of the healthcare ecosystem will need to change, from revenue based on volume to revenue based on value, if healthcare services are to be sustainable and cost effective. Mergers, acquisitions, and new alliances among hospitals, health plans, and physician groups are reshaping the healthcare environment. Leading organizations are investing in next-generation tools and technologies to improve the quality of care and the economies of paying for care. Health plans, physicians, and healthcare systems are developing new integrated delivery networks and value-based payment models. In this difficult environment, several requirements are certain:

- Do better with less, to improve quality and to manage margins on less revenue
- Increase size and scale to improve efficiencies, manage population health, and achieve true clinical integration
- Manage compliance with ever- increasing enforcement activities and the ongoing implementation of unfunded or underfunded mandates
- Address costs since the current total cost of U.S. healthcare is unsustainable

We recognize that the Corporation has initiated the process of identifying strategies including physician alignment, clinical and service quality, cost containment strategies, and the opportunity for strategic alliances through mergers and/or acquisitions. The Corporation understands that change is needed and should continue to have a feasible plan for transformation to a value based payment system.

The development of a comprehensive financial and strategic plan is critical for Corporation management to ensure they are on track with identifying key healthcare operational issues and business risks. As a part of this continued effort, we recommend that management formally document the results of a detailed risk assessment process.

Physician Integration Alignment and Joint Venture Partnerships

Health reform initiatives are requiring hospitals and physicians to examine their historical relationships and align around patient centered care and shared financial gain. In order to remain competitive within the market, the Corporation is continuing to refine its strategy related to physician integration and alignment. While various care models and/or reimbursement methodologies may emerge as healthcare reform evolves, the following considerations will affect the changing nature of the hospital/physician relationship:

- A shift in the location of services from acute to more efficient and cost-effective ambulatory settings
- A change in focus from volume versus value driven reimbursement, resulting in service delivery rewarding quality, patient safety, patient satisfaction, and cost effectiveness
- Development of a team based approach to care, with increased communication among providers throughout the continuum of care, supported by clinical integration and shared goals
- Increased role of physicians in health system governance and contribution to strategic discussions within the clinical enterprise
- Employment and/or alignment arrangements that are mutually beneficial to hospitals and physicians which continue to meet legal and regulatory standards related to fair market value and commercial reasonableness
- Compensation for employed physicians which reward experience and balance goals related to productivity, quality, and shared accountability for financial success

As the Corporation expands their relationships with physicians, we recommend that management continue to evaluate its efforts towards the integration and alignment of its physician network. As a part of this effort, the Corporation should take steps towards enhancement of practice management functions to standardize policies and procedures, development of centralized business services which support operational efficiency and financial viability of physician practices and continue the deployment of electronic health records to better align with community physicians.

Additionally, the Corporation should continue to evaluate opportunities in the New York healthcare market place for expansion to support the newly aligned physician arrangements and joint-venture partnerships. Such joint-venture partnerships will allow the Corporation to utilize facilities or services such as medical office buildings, clinical laboratories, and ambulatory surgery centers to better aid the physicians in meeting their patients' needs. These efforts will support the development of a delivery system, with an expanded footprint, that is based on quality, clinical integration, and cost effectiveness.

ICD-10 Conversion

ICD-10 is the tenth version of the diagnosis and procedure coding for the healthcare industry which is used for reimbursement and medical management purposes. ICD-10 will result in a tremendous expansion in the number of diagnosis and procedure codes which will increase from approximately 16,000 codes to over 155,000 codes.

It is important that the Corporation continue to address the impact of ICD-10 on operations and continue to assess ICD-10 readiness, process and policy upgrades, and potential training issues. ICD-10 conversion is considered to be a highly complex implementation and will lead to significant changes in people, processes, finance, and technology.

Privacy

HIPAA Compliance

The Department of Health and Human Services (HHS) finalized the Omnibus in January 2013, which modifies the existing Privacy, Security and Breach Notification Rules under HIPAA and HITECH. The Omnibus became effective on March 26, 2013, with a compliance date of September 23, 2013.

The Omnibus modifications represent significant changes to the Rules, particularly in the Privacy and Breach Notification Rule. Among the most significant changes brought forth by the Omnibus are the changes with respect to business associates and breach notification. The definition of business associates has changed to include a person or organization that creates, receives, *maintains*, or transmits protected health information (PHI) in the course of performing functions on behalf of a covered entity. Additionally, covered entities are now required to gain documented satisfactory assurances from the business associates regarding the safeguards for PHI. Absent a business associate agreement, OCR has the authority to make the determination that a vendor is performing the functions of a business associate, thus imposing liability. Covered entities must perform a risk assessment of its vendors to adequately understand and mitigate potential risks.

There are also other changes to access to PHI, marketing, fundraising, the definition of PHI, genetic information, deceased individuals, and research; all changes will require updates to the Notice of Privacy Practices as necessary and appropriate consistent with the requirements.

Under the Omnibus, penalty levels have been increased for non-compliance. Penalties are increased for noncompliance based on the level of negligence with a maximum penalty of $1.5 million per violation. In addition to monetary fines, non-compliant covered entities may be subject to loss of contracts, criminal and civil investigation, federal and state fines, cost of breach notification and reputational risk. In 2012, OCR began to audit covered entities' compliance and intends to continue such audits, including audits of business associates, in the future.

As technology becomes further integrated with the delivery of care through medical records, sharing information on smart phones, texting, and cloud technology (see additional comments), we recommend that the Corporation revisit its HIPAA compliance program to ensure that the organization is able to comply with the recently enacted HIPAA regulations. Healthcare organizations should consider (1) performing annual documented HIPAA risk assessment of both the Security and the Privacy Rule (2) understanding where all of its PHI is, including software, legacy systems, mobile devices, unstructured data (3) and implementing controls to identify all vendors requiring a business associate agreement and to understand the information being disclosed to the vendors and their vendors/subcontractors.

Electronic Personal Health Information

We also recommend that the Corporation develop strategies, if it has not done so already, to protect all ePHI (electronic personal health information) accessed, stored, or transmitted via smart phones and tablets. This strategy may include a mobile security risk assessment, establishment of policies and procedures regarding mobile access, patient consent, and data storage on mobile devices, including encryption, transmission to and from mobile devices, training programs, and implementing measures to prevent unauthorized access.

Use of Cloud Computing in Healthcare

Through many years of technological innovation there is an awareness and heightened focus on the information technology environment. Cloud computing provides a more convenient way of sharing resources, networking, and implementation of new systems much more quickly. Cloud computing in simplest terms is similar to having an online email account and being able to log in from anywhere to access information. Use of cloud computing in the healthcare environment provides for innovative ways to capture, manage, store, and share information with potential cost savings. Healthcare executives can use cloud computing to help innovate their organization in several ways.

Healthcare organizations are now thinking about how cloud computing may impact revenue cycle, upgrades to existing systems vs. cloud opportunities, integration with payers and suppliers, efficiently connecting with physician practices, and accelerating connections between primary care providers and home care. With change comes more challenges to consider such as implementation costs, integration, security, and other operational and governance challenges. The Corporation should evaluate cloud computing as they look for new approaches to clinical and financial information systems.

Securities and Exchange Commission (SEC) Review of Municipal Securities Market

The SEC conducted a comprehensive examination of the Municipal Securities Market in July 2012 and published their findings. The purpose was to identify issues and concerns related to municipal securities both from the perspective of the investor and the issuer. The Commission focused on two main areas, disclosure and market structure. The disclosure issues discussed arise in the primary offering and continuing disclosure contexts. For example, many participants raised questions related to the content and timeliness of financial information in primary offerings as well as the timeliness and completeness of filings and compliance with continuing disclosure agreements.

The examination resulted in the Commission providing several recommendations for potential further consideration, including legislative, rule-making, and enhancement of industry "best practices." These recommendations are designed to address various concerns raised by market participants and others and to provide avenues to improve the municipal securities market, including transparency for municipal securities investors.

The Commission believes that these recommendations could potentially help improve the municipal securities market and enhance investor protection; they are sensitive to changes in legal or regulatory standards that could lead to certain costs and believe that such costs should be considered in connection with the economic analysis conducted as appropriate in the context of specific proposals.

The Commission has proposed the following recommendations, among others:

- Make legislative changes that provide the Commission with additional authority to initiate changes to improve municipal securities disclosures made by issuers
- Have market participants continue to strive for high-quality disclosure practices through development and enhancement of best practice guidelines
- Require municipal issuers to prepare and disseminate official statements and disclosures during the outstanding term of the securities
- Amend the municipal securities exemptions in the Securities Act and Exchange Act to eliminate the availability of such exemptions to conduit borrowers who are not municipal entities
- Authorize the Commission to establish the form and content of financial statements for municipal issuers who issue municipal securities
- Permit the Internal Revenue Service to share with the Commission information that it obtains from returns, audits, and examinations related to municipal securities offerings in appropriate circumstances, such as instances of suspected securities fraud
- Provide a mechanism to enforce compliance with continuing disclosure agreements and other obligations of municipal issuers to protect bondholders and authorize the Commission to require trustees or other entities to enforce the terms of continuing disclosure agreements

Healthcare Rating Agency Metrics

In conjunction with the rapidly changing healthcare environment, rating agencies are beginning to look at new metrics for hospitals. Rating agencies have identified and are requesting new data points which include:

- Data points on new payment arrangements and new hospital reimbursement methodologies such as bundled payments, shared savings plans, diagnosis related (DRG) reimbursement, etc., metrics on disaggregation of revenue streams by inpatient and outpatient, and the number of covered lives via Medicare Accountable Care Organizations or other similar payor contracts
- Data points to measure patient demand including data on unique patients treated, readmission rates for Medicare and all payors, and total case mix index
- Data points on new physician relationships including the number of employed physicians and the number of active medical staff, including independent and employed physicians

Organizations will be required to begin reporting on these supplemental metrics for fiscal years 2012 and 2011 for comparison purposes. As healthcare organizations begin implementing new strategies and business models, rating agencies will utilize these metrics to assess the creditworthiness and financial health of the organizations which could affect debt grading and/or access to future capital. In addition, costs of financing could increase, which will also increase future interest expense.

* * * * * *

We would be pleased to discuss these comments and recommendations with you at any time.

The Corporation's written responses to our comments and recommendations 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, the Audit Committee, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Prior Year Comments Cleared

During the course of our test work, we noted several areas in which the prior year management letter recommendations were adopted. These remediated comments are listed below:

Accounts Receivable and Patient Revenue

Observation

Management continues to perform the valuation of patient accounts receivable on a net basis (inclusive of credit patient accounts receivable balances). Presently, there is approximately $74 million of credits which could represent additional income or potential refunds.

Resolution

Management routinely monitors the credit balances on a quarterly basis. In the Corporation's experience, many of the credit balances are the result of timing differences and mis-postings that do not represent additional income or refunds. The Comptroller's office will continue to monitor credit balances for any significant changes from period to period.

Corporate Compliance Program

Observation

KPMG notes that progress continues to be made in the overall compliance program at the Corporation. The updates provided to various committees, including (i) the Executive Compliance Workgroup; (ii) the Executive Compliance Workgroup Subcommittee on Compliance and Quality; (iii) the Audit Committee of the HHC Board of Directors; and (iv) the Audit Committee Compliance Workgroup, are detailed and provide a significant amount of information. This provides the Committee members with immediate knowledge of the status of the work plan, open reviews and projects completed. We also noted the continued "open" status of risk assessment work plan items relating to the 2010 & 2011 risk assessment processes. The Corporate Compliance department is currently working on the fiscal year 2013 work plan.

Additionally, KPMG notes that outside legal counsel is utilized by the Corporate Compliance department to help ensure that the department fulfills its obligation to implement an effective compliance program. This assistance by outside legal counsel includes assisting in identifying applicable legal standards, reviewing and assisting in the preparation of risk assessment and audit tools for various work plan items, responding to questions on legal issues raised by the Corporate Compliance department, as well as assisting with the preparation of various reports provided to the Audit Committee of the HHC Board of Directors, the Audit Committee Compliance workgroup and other members of HHC's leadership team.

Resolution

The Office of Corporate Compliance ("OCC") has continued to: (i) update the Audit Committee of the Board of Directors and its Compliance Workgroup, as well as the Executive Compliance Workgroup, on compliance initiatives, vulnerabilities, reports, and findings; and (ii) utilize in-house and outside counsel for legal guidance and to assist OCC in its development and implementation of HHC's Corporate Compliance Work Plan and corresponding reports. OCC completed its calendar year 2012-2013 Corporate Compliance Work Plan in fiscal year 2013 and reviewed the newly identified risk items contained therein and continued to diligently assess, mitigate, monitor, and, when appropriate, close identified risk items from its previous work plans. OCC completed the fiscal year 2014 work plan in November 2013 and it was approved in early December 2013.

Site Visits

Observations

- Payroll and Human Resources
    1. One employee timesheet at Jacobi Medical Center had no evidence of supervisor approval. KPMG notes this could potentially result in inappropriate payment.
- Materials Management
    1. The purchase order for an expense item at Central Office was dated subsequent to the invoice date, evidencing that proper approval for payment was not obtained. KPMG notes this could allow for inappropriate/unauthorized expenses to be paid.
    2. A fixed asset item at Dr. Susan Smith McKinney Nursing and Rehabilitation Center could not be located to evidence the existence of the fixed asset. KPMG notes this could result in an improper fixed asset balance.
- Accounts Receivable and Patient Revenue
    1. The open visit report at Morrisania DT&C had 23 visits that were one year or older, evidencing that timely follow up on open visits is not performed. KPMG notes this allows for untimely realization of cash collections, contractual allowances, and write-offs.
    2. The open visit report at Metropolitan Hospital Center had 68 visits that were one year or older, evidencing that timely follow up on open visits is not performed. KPMG notes this allows for untimely realization of cash collections, contractual allowances, and write-offs.

Resolutions

- Payroll and Human Resources
    1. Management put safeguards in place to be more prudent when it comes to supervisor sign-off, including a review for approvals performed prior to transfer to the timekeeper.

- Materials Management

    1. Management re-instructed departments on the authorization process to ensure that HHC operating procedures are followed.

    2. The observation noted in the prior year was the result of a handheld monitor used by hospital police that could not be found. Management replaced the handheld monitors used by hospital police by installing cameras throughout the facility to avoid misplacement of monitors in the future.

- Accounts Receivable and Patient Revenue

    1. Morrisania Ambulatory Care/Administration monitors the open visits report to investigate and close all visits timely. Periodic reviews are conducted by Network staff to ensure compliance with established procedures.

    2. Metropolitan has undergone a management restructuring initiative which was finalized in March 2012 to establish service lines. The service line administrator and/or their designee(s) is responsible for reviewing and addressing open visit activity to ensure that visits are closed in a timely manner. Daily open visit reports are distributed to service line managers and (or) administers identifying visits that are greater than 5 days old in order to close visits timely.