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**To:** Howard Weitzman  
**From:** Manuel Mosquera  
**Date:** September 11, 2003  
**Re:** Review of NHCC's Cash Balances

At your request and with the cooperation of the Nassau Health Care Corporation's (NHCC) Chief Financial Officer and his staff, the Field Audit unit performed a limited review of NHCC's cash balances. Our review began with cash balances as of December 31, 2002, contained in NHCC's audited financial statements and also examined NHCC's unaudited financial records as of June 30<sup>th</sup>, July 31<sup>st</sup> and August 15<sup>th</sup> of 2003.

The results of our limited review are outlined below:

**Audit Objective:** To perform a limited review to verify cash balances of the NHCC at selected time periods.

**Scope and Methodology:**

In order to accomplish our limited review objective, selective testing and analytical procedures were performed in examining NHCC's cash balances. Our review of the cash balances consisted principally of applying analytical procedures to the financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, the cash balances reported herein were compiled by NHCC and are the representations of NHCC's management. Because we only performed limited testing, our review was not sufficient to enable us to express, and we do not express, an opinion on the cash balances reported herein.

As part of our selective testing, we reconciled selected trial balance account amounts to their respective bank accounts (involving examination of bank statements and/or online access to bank databases) with the goal of verifying the cash balances reported by NHCC. The auditors performed analytical procedures to verify the

significant drop in the cash and cash equivalents balances over the time period under examination. In addition, NHCC personnel were interviewed regarding the significant drop in cash balances for the time period under review; however, no independent verification of their explanations was performed. Additionally, our review did not focus on the validation of any receivables or liabilities that could impact current cash balances.

**Summary of Significant Conclusions:**

NHCC has been experiencing a decline in cash and cash equivalents for the period under review. The audited balance sheet as of December 31, 2002, showed cash and cash equivalents of \$56.4 million. The unaudited June 30, 2003 trial balance showed a balance of \$42.8 million, a decline of \$13.6 million. This trend continued, and a July 31, 2003 draft trial balance showed cash and cash equivalents of \$33.5 million, a decline of \$9.3 million from June 30, 2003. A limited review of bank balances as of August 15, 2003, showed an additional decline of approximately \$6 million, which agrees with schedules provided to us by NHCC.

Cash and Cash Equivalents Amounts in Thousands					
December 31, 2002	June 30, 2003	July 31, 2003	August 15, 2003	Net Reduction Since 12/31/02	Percentage Reduction Since 12/31/02
\$56,354	\$42,786	\$33,546	\$27,729	\$28,625	50.8%

In connection with our inquiry into the cash balances, the CFO of NHCC advised us that the decline has been a result of revenues not being received in a timely manner. NHCC indicated that \$39.0 million in revenues should have been received by August 15, 2003. Included in this total was \$9.0 million from the County that was subsequently paid on August 18, 2003.

**Detailed Conclusions and Comments:**

1. There was a decline of \$13.6 million in the cash and cash equivalents from December 31, 2002, to June 30, 2003. (See Exhibit A). As of July 31, 2003, the cash and cash equivalents reported in the draft trial balance was \$33.5 million, which is an additional reduction of \$9.3 million. The account balances (except for a few small immaterial accounts) on the June 30, 2003, trial balance were reconciled to bank statements; a limited number of balances for July were also traced to the bank statements. Additionally, Exhibit A lists the balances of assets whose use is limited, both current and net of current. The total balances of all of these accounts (cash and cash equivalents and the assets whose use is limited) declined \$42.9 million from December 31, 2002 (\$138.9 million) to August 15, 2003 (\$96.0 million). The assets whose use is limited – net of current includes accounts that are related to the FPP (Faculty Practice Plan), debt service reserve, operating reserves, and malpractice insurance. The current portion of the assets whose use is limited includes the current interest payable, FPP payroll payable, and limited use capital budget.

We also examined the bank balances of the accounts used as working capital as of August 15, 2003. The working capital varies from the cash and cash equivalents, because it does not include funds deposited in

clearing accounts. The working capital balance as of August 15, 2003, was \$34.7 million, which includes approximately \$7.8 million in capital budget funds (shown on the balance sheet as assets whose use is limited – current and not in cash and cash equivalents).

2. Hospital officials noted that the decline in the cash balances was due to NHCC not receiving revenues from several sources in a timely manner. NHCC originally projected that these revenues would have been received prior to August 15, 2003, which would have resulted in a greater cash balance. (See Exhibit B, which lists the revenue amounts and sources.) Exhibit B shows that NHCC is expecting to receive a total of \$39 million in additional revenues in the next few months. This exhibit shows \$9 million due from Nassau County; this amount was subsequently paid to NHCC on August 18, 2003.

3. NHCC's audited financial statements for 2002 noted that NHCC had entered into an agreement, with the Bank of New York, to make \$50 million available to the bank (contingent upon the working capital requirements of NHCC) for a guaranteed rate of return to NHCC of 2.4% interest. As of June 30, 2003, after this agreement expired, there was a total of \$41.5 million in funds remaining in this account. Of this \$41.5 million, \$35 million was invested with Commerce Bank in two separate bank accounts (\$25 million at a fixed rate of 2% and \$10 million at 1.75%). NHCC indicated that the \$6.5 million not deposited was utilized for payroll purposes.

4. As part of the transfer agreement, the County provided \$22.5 million to NHCC for three specific capital projects (code violations, neonatal ICU, and ramp parking garage). The county's records as of December 31, 2001, showed available funds of \$24.4 million including interest. Records provided by NHCC show expenditures of \$17.7 million to date, leaving a total of \$6.7 million in funds unaccounted for. We were advised by NHCC that all of the capital funding has been utilized and that it would provide a full accounting of these funds by Friday September 5, 2003. As of the date of this letter, we have not yet received the promised information.

5. Included in the cash and cash equivalents category are three accounts whose funds are not available to NHCC (liability accounts have been established to offset these amounts). According to the NHCC, the balances in these three accounts (\$664,708 as of July 31, 2003) are not available to NHCC because they are held in escrow for the residents of A. Holly Patterson (\$600,786), are housing deposits (\$58,350), or are bid deposits (\$5,572). These funds are not included in NHCC's available working capital. Again according to NHCC, these accounts were included in the cash and cash equivalents on the instructions of the outside auditors.

CC: Jane Levine, Chief Deputy Comptroller

EXHIBIT A

COMPARISON OF CASH AND CASH EQUIVALENTS AND ASSETS WITH LIMITED USE DEC. 31,2002, JUNE 30, 2003, JULY 31, 2003, AND AUG. 15, 2003 Amounts in Thousands						
	December 31, 2002	June 30, 2003	July 31, 2003	August 15, 2003		
Category	Audited Consolidated Balance Sheet	Bank Balances and Unaudited Trial Balance (See Note 1)	Draft Trial Balance (See Note 2)	Updated Bank Statements and July Trial Balance (See Notes 3 and 4)	Net Reduction Since 12/31/02	Percentage Reduction Since 12/31/02
Cash and Cash Equivalents	\$56,354	\$42,786	\$33,546	\$27,729	\$28,625	50.8%
Assets whose Use is Limited, Current	\$23,171	\$16,728	\$17,700	\$10,370	\$12,801	55.3%
Assets whose Use is Limited, Net of Current	\$59,417	\$58,098	\$57,912	\$57,912	\$1,505	2.5%
<b>Total</b>	<b>\$138,942</b>	<b>\$117,612</b>	<b>\$109,158</b>	<b>\$96,011</b>	<b>\$42,931</b>	<b>30.9%</b>

Notes:

1. Except for a few small accounts, the June 30, 2003 balances from the unaudited trial balance were reconciled to the appropriate bank statements. The amount shown as cash and cash equivalents from the trial balance contains non-material variances, which were not investigated, from the amount shown on the Unaudited Consolidated Balance Sheet received from NHCC.
2. The July 31, 2003 amounts were obtained from a draft trial balance provided on August 21, 2003.
3. The August 15, 2003 cash and cash equivalents balance was obtained from bank records obtained via the internet and a few immaterial balances were carried forward from the July 31, 2003 trial balance without any adjustments being made. The assets whose use is limited - net of current is the July 31, 2003 draft trial balance amounts carried forward without any adjustments made.
4. Our limited review did not take into account any possible cash deposits or funds transfers in transit.
5. On August 1, 2003, NHCC was required to make a payment of \$7.33 million for interest on bonds payable. A reduction of \$7.33 million was made in the assets whose use is limited – current to reflect this required payment.

EXHIBIT B

<p style="text-align: center;">SCHEDULE OF ESTIMATED OUTSTANDING REVENUES            PROVIDED BY NHCC AS REASONS FOR THE DECLINING CASH BALANCE            AS OF AUGUST 15, 2003</p>		
Source	Amount	Note
Nassau County	\$9.0 Million	Paid on 8/18/03
SLIPA (Supplemental Low Income Patient Adjustment)	\$6.0 Million	NHCC reports that this State funding is late because the State legislature was late in adopting the budget.
CHCCDP (Community Center Conversion Demonstration Project)	\$4.0 Million	NHCC reports this amount has been expended, but it has yet to receive the advance from the State.
Medicare	\$10.0 Million	Periodic Interim Payments (PIP). NHCC claimed that there was an increase in patient volume, which would result in a corresponding increase in PIP funding. However, NHCC has not received the corresponding increase in the funding. This amount represents the additional payments NHCC believes are due for prior periods.
Medicaid	\$10.0 Million	There is a delay at the Department of Social Services (DSS) in the processing of applications. The amount listed represents the estimated payments being delayed above the normal lag in payments from the processing of the applications. See note below.
<i>Total</i>	<i>\$39.0 Million</i>	

NOTE:

We verified that there is a delay in the processing of applications for Medicaid assistance with the County's Department of Social Services. The department noted that there is a backlog of approximately 10,000 applications versus the "normal" backlog of 3,000 applications. However, we did not verify the monetary impact of the backlog to NHCC.