HOBOKEN MUNICIPAL HOSPITAL AUTHORITY

(A Component Unit of the City of Hoboken)

LETTER OF RECOMMENDATIONS

FOR THE PERIOD JANUARY 1, 2008 TO DECEMBER 31, 2008

M B C McENERNEY, BRADY & COMPANY, LLC

Certified Public Accountants * A Limited Liability Company

Honorable Chairman and Members of
The Hoboken Municipal Hospital Authority
County of Hudson, New Jersey

In planning and performing our audit of the financial statements of Hoboken Municipal Hospital Authority, as of December 31, 2008 and for the period from January 1, 2008 to December 31, 2008 in accordance with auditing standards generally accepted in the United States of America, we considered the Authority'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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

In connection with our audit, we also noted other administrative and operational matters involving the internal control structure that we consider opportunities for strengthening existing internal controls and improving operating efficiency. The comments on the following pages summarize the deficiencies and administrative and operational matters noted during our audit of Hoboken Municipal Hospital Authority, as of December 31, 2008 and for the period from January 1, 2008 to December 31, 2008.

This communication is intended solely for the information and use of Management and the Board of Commissioners of Hoboken Municipal Hospital Authority, and Federal, State and Local awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to meet with you at your convenience to discuss these comments in detail and if you deem it appropriate to assist in their implementation.

We wish to extend our appreciation to the Accounting and Administrative personnel of the Authority for the assistance and courtesy extended to our staff during our audit.

McEnerney, Brady & Company, LLC

McEnerney, Brady & Company, LLC
September 1, 2009

GENERAL

The following three Comments are directed to the Authority even though the Hudson Healthcare, Inc. (HHI) manages the Hospital's operation. Therefore, the remaining comments should be communicated by the Authority to HHI for consideration and implementation.

A formal Corrective Action Plan was not available for review; additionally it was not determined whether the following two prior year comments were addressed. A formal Corrective Action Plan should be drafted and adopted by the Authority.

*Cash Management Plan – The Authority should adopt a cash management plan as amended by Chapter 148, P.L. 1997 and pursuant to the provisions of the Local Fiscal Affairs Law (N.J.S.A. 40A:5-1 et seq.).

*Surety Bonds - The Authority, together with a risk manager or insurance advisor, should review the type and limits of coverage to insure that the Authority's assets are sufficiently protected.

*DOCUMENTATION AND PROCEDURES

Given the heightened sensitivity involving effective internal controls over financial reporting of not-for-profit organizations, we recommend the Medical Center review and update, as necessary, its written policies and procedures with respect to all significant accounts included on the Medical Center's financial statements, the process for recording journal entries, documentation standards and other processes and practices.

We also recommend the Medical Center review and update its policies and procedures relative to the journal entry process. We recommend that the Medical Center's policies and procedures specifically address the documentation requirements and the protocols for initiating and approving journal entries. The policies should distinguish between recurring and non-recurring entries and journal entries prepared in connection with the finalization of the financial statements, giving consideration to the varying risks and controls related to each type. Further, the written policies and procedures should establish guidelines on the documentation necessary to support all journal entries and the requirements for retention of journal entry support.

Additionally, we recommend the documentation of policies and procedures extend to the significant processes that are relied upon in the preparation of financial information and include the controls in place to minimize the risk of material misstatement and the validation procedures in place to test compliance with existing policies. Additionally, working paper analyses and schedules should be clearly referenced to the source of any information utilized and the date of completion should be indicated. Furthermore, support used in determining the appropriateness of amounts reported in the general ledger and financial statements should be included in the Medical Center's files. Particular attention should be paid to accounts that are subjective in nature and should include the rationale for selecting assumptions and estimation methods used and an explanation for deviations from expected results or past performance.

Finally, the Office of Inspector General of the Department of Health and Human Services has released compliance program guidance with respect to fraud and abuse risk areas particularily relevant to the healthcare industry. We suggest the Medical Center review the guidance and consider updating, as necessary, its compliance program to address, mitigate or eliminate such risks.

On an ongoing basis, we recommend all policies and procedures, documentation standards and compliance program requirements be monitored to assure compliance.

*ACCOUNT ANALYSIS

During our audit, we reviewed various account analyses prepared by the Medical Center to support its financial statement balances. Some of the account analyses, relating to receivables and allowances, did not appear to be prepared during the course of the year but instead were prepared only at year-end. We recommend such analyses be compiled and maintained on a monthly basis and that appropriate personnel review and approve these analyses to verify their accuracy and reasonableness. We believe the preparation and adjustment of account balances on an interim basis will provide management with more accurate internally prepared financial statements, which can then be better used as a decision-making tool.

*AUDIT ADJUSTMENTS

In connection with our audit, we proposed several audit adjustments to the amounts recorded in the Medical Center's financial statements. All of the adjustments were made in consultation with management. While some of the audit adjustments were immaterial and were proposed as an administrative convenience for the Medical Center, our audit also identified several significant amounts relating to receivables and allowances in the financial statements that required adjustment. The Medical Center's internal controls did not detect or identify these amounts. Accordingly, we recommend that the Medical Center review and modify, as necessary, its controls over the financial reporting process, in an attempt to prevent and detect mispostings to the financial statements.

*PERIODIC INTERIM PAYMENTS (PIP)

The Medical Center participates in the Periodic Interim Payment Program for the processing and payment of inpatient Medicare accounts. Under this program, an advance payment is received on a regular bi-weekly basis, and as claims are processed, they are applied against this advance. The Medical Center controls the activity in the PIP account by recording advances received and cases processed.

We recommend that, the Medical Center reconcile the unapplied balance in this account to the data available from the Intermediary, i.e., processed and approved billed accounts vs. advance payments. This procedure should be performed on an interim basis, and could provide a check that the balance in the general ledger account is accurate for the current year's activity.

We also recommend that separate general ledger accounts be maintained for each year remaining open under the Periodic Interim Payment Program. Any net balance in the PIP account at year end should be carried-forward to the following year and those prior year processed accounts applied against it. PIP transactions related to the subsequent year should similarly be recorded in two (2) new accounts for processed accounts and bi-weekly payments, respectively.

***ALLOWANCE FOR UNCOLLECTIBLES AND WRITE-OFFS**

In consultation with management, a substantial adjustment was recorded to the allowance for uncollectible patient accounts receivable at December 31, 2007 and 2008. While the Medical Center continues to develop a more precise methodology to estimate its allowance for uncollectibles and write-offs, we recommend that the Medical Center utilize its monthly inpatient and outpatient accounts receivable aging summaries and apply estimated percentages of uncollectibles to the balances in the various aging categories. The calculation of the allowance for uncollectible accounts by this method would provide an additional estimate for financial reporting as well as serve as a basis for comparison and analyses of agings on a monthly basis.

CASH DRAW DOWNS

HHI has drawn down funds from the Authority to cover operating expenses. These funds have been kept on deposit and associated accounts payable have not been liquidated. We recommend that HHI only drawn down funds that will be required to liquidate liabilities on a timely basis.

* Denotes comment repeated from prior year.