Cook County, Illinois

Report to the County President, Board of Commissioners and the Audit Committee

May 31, 2015

McGladrey

Assurance ▪ Tax ▪ Consulting

McGladrey LLP

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May 31, 2015

The Honorable Toni Preckwinkle, County Board President and
Members of the County Board of Commissioners, and
The Honorable John P. Daley, Chairman, Cook County Audit Committee
Cook County, Illinois
118 North Clark Street, Room 1127
Chicago, Illinois 60602-1423

We are pleased to present this report related to our audit of the basic financial statements of Cook County, Illinois (the County) for the year ended November 30, 2014, and the audit of the Treasurer's Agency Funds A and D. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the County's financial reporting process.

This report is intended solely for the information and use of the County Board President and County Board of Commissioners, the Audit Committee and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have about this report. We appreciate the opportunity to continue to be of service to the County.

McGladrey LLP

Contents

Required Communications

Generally accepted auditing standards (AU-C 260, *The Auditor's Communication With Those Charged With Governance)* require the auditor to promote effective two-way communication between the auditor and those charged with governance. Consistent with this requirement, the following summarizes our responsibilities regarding the basic financial statement audit for the County CAFR and for the Treasurer's Agency A and D fund audits, as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States, have been described to you in our arrangement letter dated January 22, 2015. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities which are also described in that letter.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.
Accounting Policies and Practices	**Preferability of Accounting Policies and Practices** Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice. **Adoption of, or Change in, Accounting Policies** Management has the ultimate responsibility for the appropriateness of the accounting policies used by the County. During the year, the County adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement of Net Position of the County included deferred charges within the Governmental Activities of the County in previous years. However, pursuant to GASB 65 applicable debt issuance costs should now be recognized in the period incurred as an expense. This resulted in a restatement of opening net position of governmental activities. **Significant or Unusual Transactions** We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. **Management's Judgments and Accounting Estimates** Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.

Area	Comments
Financial Statement Disclosures	At your request, we will meet with you to discuss the following items as they relate to the neutrality, consistency and clarity of the disclosures in the financial statements: • Subsidies provided to CCHHS and how they are reported Differing balances between employer contributions receivable reported by the Pension Fund and amounts reported as owed by the County as the employer The impact of implementing GASB Statements No. 67 and 68 (the Pension Standards), which are applicable in fiscal year 2015.
Audit Adjustments	Audit adjustments proposed by us and recorded by the County are shown in Exhibit B.
Uncorrected Misstatements	Uncorrected misstatements are summarized in the attached Management Representation Letter (Exhibit A) and the Revised Schedule of Uncorrected Misstatements.
Disagreements With Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations With Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed with or were the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Letter Communicating Significant Deficiencies and Material Weaknesses in Internal Control over Financial Reporting	We have separately communicated the significant deficiencies and material weaknesses in internal control over financial reporting identified during our audit of the basic financial statements as required by *Government Auditing Standards*. All of our findings are in the Combined CAFR/Single Audit Reporting package and are included herein as Exhibit C.
Significant Written Communications Between Management and Our Firm	Copies of material written communications between our firm and management of the County, including the signed Management Representation Letter provided to us by management, are attached as Exhibit A.

Cook County, Illinois
Summary of Significant Accounting Estimates
Year Ended November 30, 2014

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in the County's and the Treasurer's Agency Funds A and D's November 30, 2014 financial statements.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Depreciation of capital Assets	The County depreciates its capital assets over their estimated useful lives on the straight line basis.	The County has informed us they used all the relevant facts available to them to make the best judgment about useful lives of assets. The County establishes estimated useful lives of individual assets based on its expected life and use.	McGladrey reviewed the depreciation calculation and has communicated a control deficiency to the County (Exhibit C). The overall depreciation calculation however was reasonable.
Investments (excludes pension plan investments)	The County reports most investments at their fair value.	The County obtains market value prices from Trustees and other third party sources and reviews for reasonableness.	We independently tested a sample of fair values and concluded amounts recorded by the County were appropriately adjusted to fair value where required.
Self-Insured Liabilities	The County records an estimate of the probable loss for worker's compensation, medical malpractice, liability and other claims. The accrued liability represents an estimate of the eventual loss on claims including claims incurred but not reported (IBNR).	The County's risk management and legal departments provide details of open cases, reserve estimates, claims payment activity and other information to the actuary. This data is used by the actuary to determine the probable liabilities based on historical trends and other loss factor data.	We obtained the actuarial report directly from the actuary. We tested certain source data provided to the actuary to the County's books and records. We had our actuary review certain of the methods and assumptions used by the County's actuary. We concluded the Estimates were reasonable.

Pension Obligations and Other Post-Retirement Benefit Obligations (government wide reporting)	The County accounts for its defined benefit pension and OPEB plans (for its qualified employees) in accordance with GASB 27 and GASB 45. The annual pension /OPEB liability is based on the difference between actual contribution made in relation to the actuarially required contribution, as determined by the County's actuary.	Based on current economic conditions, management determines a discount rate, a long-term rate of return on plan assets and the compensation increase. They submit employee census data to the actuary with the underlying assumptions. From this, the actuary calculates the actuarially required contribution..	We obtained a copy of the actuaries' reports, together with confirmation of their objectivity. We also obtained a copy of the employee census data provided to the actuaries. On a sample basis, we tested that the census data provided was accurate. We had our internal actuaries review the report, assumptions and methods used. We concluded the estimates were reasonable.
Property Tax Objections Liability	The County records an estimated liability for future refunds related to property tax objections.	The County assesses historical refund activity by refund type and levy year to determine a substantially complete life cycle of refunds for any given levy year. The term of the life cycle is then used to estimate future refunds for levy years in which refunds are still anticipated.	We reviewed the methodology used and the historical tax collection and refund activity and recalculated the estimate and found it to be reasonable.
Property Tax Allowance	The County reports property tax revenues and receivables net of uncollectible amounts. Each year the County identifies the portion of the property tax levy that is estimated to be uncollectible and records an allowance for uncollectible property taxes.	The County estimates the uncollectable percentage of each tax levy each year based on historical tax collection data. Once the provision is determined, it is included for approval in the Annual Appropriation Bill.	We tested the data used by management in their calculation and conclude the allowance estimate is reasonable.

Exhibit A—Certain Written Communications between Management and Our Firm

Bureau of Finance | Office of the Chief Financial Officer
IVAN SAMSTEIN
CHIEF FINANCIAL OFFICER
118 N. CLARK STREET • Chicago, Illinois 60602 • (312) 603-6846

May 31, 2015

McGladrey LLP
One South Wacker Drive
Chicago, IL 60006

This representation letter is provided in connection with your audit of the basic financial statements of Cook County, Illinois as of and for the year ended November 30, 2014 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of May 31, 2015:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated January 22, 2015 for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.

2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.

5. Related-party transactions, including those with fiduciary funds and component units for which Cook County is accountable, other organizations for which the nature and significance of their relationship with Cook County are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and interfund transfers, including interfund accounts, sale and purchase transactions, interfund transfers, long-term loans, leasing agreements and guarantees have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

8. The following have been properly recorded and/or disclosed in the financial statements:

   a. Net positions and fund balance classifications.

   b. Line of credit and similar arrangements.

   c. The fair value of investments.

   d. Amounts of contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.

   e. Debt issue provisions.

   f. Authorized but unissued bonds and/or notes (subsequent event).

   g. Risk financing activities.

   h. Derivative financial instruments (pension fund).

   i. Deposits and investment securities categories of risk.

   j. Liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.

   k. Pension obligations, post-retirement benefits other than pensions and union contract employee retroactive pay estimates attributable to employee services rendered through November 30, 2014.

9. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

10. Revenues are appropriately classified in the statements of activities within program revenues and general revenues.

11. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated.

12. We agree with the findings of specialists in evaluating the County's pension liabilities, OPEB liabilities and self-insured liabilities, and we have adequately disclosed the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

13. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private that is not disclosed in the financial statement.

    To the best of our knowledge we have complied with all aspects of contractual agreements that would have a material effect on the basic financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are subject to the requirements of the Single Audit Act and OMB Circular No. A-133, and have engaged Washington, Pittman & McKeever, LLC to perform this engagement.

14. To the best of our knowledge we have informed you of all uncorrected misstatements.

As of and for the Year Ended November 30, 2014:

Management believes that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate to the opinion units of the basic financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Governmental Activities

	Debit (Credit)				
Description	Assets	Liabilities	Net Position	Revenue	Expenses
Carryover impact from previous year	$ -	$ -	$9,127,695	$(1,810,276)	$ (7,317,419)
Current Year Misstatements					
Correction to capital assets and depreciation	(458,275)	-	(1,260,303)	-	1,718,578
Unrecorded payable associated with capital assets	-	(198,462)	-	-	198,462
Correct unavailable revenues (deferred inflows)	-	(2,629,207)	-	2,629,207	-
Correct personal property replacement tax revenues and expenditures	-	-	-	13,329,456	(13,329,456)
Projected Errors:					
Correction to vacation accrual	-	(1,679,179)	-	-	1,679,179
Correction to other liabilities	-	(3,650,259)	-	-	3,650,259
	$ (458,275)	**$(8,157,107)**	**$7,867,392**	**$14,148,387**	**$(13,400,397)**

Business-Type Activities and Enterprise Fund (CCHHS)

	Debit (Credit)				
Description	Assets	Liabilities	Net Position	Revenue	Expenses
Carryover impact from previous year	$ -	$ -	$3,112,590	$ -	$ (3,112,590)
Current Year Misstatements					
To correct the property tax receivable and revenue	(2,495,106)	-	-	2,495,106	-
Projected Errors:					
Correction to other liabilities	-	4,800,000	-	-	(4,800,000)
	$(2,495,106)	**$ 4,800,000**	**$3,112,590**	**$ 2,495,106**	**$ (7,912,590)**

General Fund

Description	Assets	Liabilities	Net Position	Revenue	Expenses
			Debit (Credit)		
Carryover impact from previous year	$ -	$ -	$6,627,933	$(1,810,276)	$ (4,817,657)
Current Year Misstatements					
Unrecorded payable associated with capital assets	-	(198,462)	-	-	198,462
Correct unavailable revenues (deferred inflows)	-	(2,629,207)	-	2,629,207	-
Projected Errors:	-	-	-	-	-
Correction to other liabilities		(3,650,259)			3,650,259
	$ -	**$(6,477,928)**	**$6,627,933**	**$ 818,931**	**$ (968,936)**

Annuity and Benefit Fund

Description	Assets	Liabilities	Net Position	Revenue	Expenses
			Debit (Credit)		
Carryover impact from previous year	$ -	$ -	$ -	$ -	$ -
Current Year Misstatements					
Correct personal property replacement tax revenues and expenditures	-	-	-	13,329,456	(13,329,456)
	$ -	**$ -**	**$ -**	**$13,329,456**	**$(13,329,456)**

Aggregate Non-major Funds

Description	Assets	Liabilities	Net Position	Revenue	Expenses
			Debit (Credit)		
Carryover impact from previous year	$ -	$ -	$2,499,762	$ -	$ (2,499,762)
Current Year Misstatements					
None	-	-	-	-	-
	$ -	**$ -**	**$2,499,762**	**$ -**	**$ (2,499,762)**

Information Provided

15. We have provided you with:
    a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
    b. Additional information that you have requested from us for the purpose of the audit;
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
    d. Minutes of the meetings of the governing board[s] and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
16. All transactions have been recorded in the accounting records and are reflected in the financial statements.
17. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.
18. We have no knowledge of allegations of fraud or suspected fraud, affecting the entity's financial statements involving:
    a. Management.
    b. Employees who have significant roles in the internal control.
    c. Others where the fraud could have a material effect on the financial statements.
19. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements received in communications from employees, former employees, analysts, regulators or others.
20. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.
21. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
22. We have disclosed to you the identity of the entity's related parties and all the related-party relationships and transactions of which we are aware.
23. We have informed you of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Entity's ability to record, process, summarize, and report financial data.
24. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Supplementary Information

25. With respect to supplementary information presented in relation to the financial statements as a whole:
    a. We acknowledge our responsibility for the presentation of such information.
    b. We believe such information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
    c. The methods of measurement or presentation have not changed from those used in the prior period.

Required Supplementary Information

26. With respect to required supplementary information presented as required by the Governmental Accounting Standards Board (GASB) to supplement the basic financial statements:
    a. We acknowledge our responsibility for the presentation of such required supplementary information.
    b. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.
    c. The methods of measurement or presentation have not changed from those used in the prior period.

Compliance Considerations

In connection with your audit, conducted in accordance with Government Auditing Standards, we confirm to the best of our knowledge that management:

27. Is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the County.
28. Has identified and disclosed to the auditor all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
29. Has identified and disclosed to the auditor all instances that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.
30. Has identified and disclosed to the auditor all instances that have occurred or are likely to have occurred of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
31. Has taken timely and appropriate steps to remedy fraud; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or abuse that the auditor reports.
32. Has a process to track the status of audit findings and recommendations.
33. Has identified for the auditor previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

34. Has provided views on the auditor's reported findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report.

35. Acknowledges its responsibilities as it relates to nonaudit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.

36. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Cook County, Illinois

Toni Preckwinkle

Toni Preckwinkle
President

Ivan Samstein
Chief Financial Officer

Bureau of Finance | Office of the Chief Financial Officer
IVAN SAMSTEIN
CHIEF FINANCIAL OFFICER
118 N. CLARK STREET ● Chicago, Illinois 60602 ● (312) 603-6846

June 11, 2015

McGladrey LLP
One South Wacker Drive
Chicago, IL 60006

This amendment to the representation letter dated May 31, 2015 is provided to acknowledge corrections to the schedule of uncorrected misstatements contained in that May 31. 2015 letter. All other provisions of that letter remain accurate.

As of and for the Year Ended November 30, 2014:

We believe that the effects of the uncorrected misstatements aggregated by you and summarized below are immaterial, both individually and in the aggregate to the opinion units of the basic financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Governmental Activities

	Debit (Credit)				
Description	Assets	Liabilities	Net Position	Revenue	Expenses
Carryover impact from previous year	$ -	$ -	$9,127,695	$ (1,810,276)	$ (7,317,419)
Current Year Misstatements					
Correction to capital assets and depreciation	(458,275)	-	(1,260,303)	-	1,718,578
Unrecorded payable associated with capital assets	-	(198,462)	-	-	198,462
Correct personal property replacement tax revenues and expenditures	-	-	-	13,329,456	(13,329,456)
Projected Errors:					
Correction to vacation accrual	-	(1,679,179)	-	-	1,679,179
Correction to other liabilities	-	(3,650,259)	-	-	3,650,259
	$ (458,275)	**$(5,527,900)**	**$7,867,392**	**$ 11,519,180**	**$(13,400,397)**

Business-Type Activities and Enterprise Fund (CCHHS)

	Debit (Credit)				
Description	Assets	Liabilities	Net Position	Revenue	Expenses
Carryover impact from previous year	$ -	$ -	$3,112,590	$ -	$ (3,112,590)
Current Year Misstatements					
To correct the property tax receivable and revenue	(2,495,106)	-	-	2,495,106	-
Projected Errors:					
Correction to other liabilities	-	4,800,000	-	-	(4,800,000)
	$(2,495,106)	**$ 4,800,000**	**$3,112,590**	**$ 2,495,106**	**$ (7,912,590)**

General Fund

	Debit (Credit)				
Description	Assets	Liabilities	Net Position	Revenue	Expenses
Carryover impact from previous year	$ -	$ -	$6,627,933	$ (1,810,276)	$ (4,817,657)
Current Year Misstatements					
Unrecorded payable associated with capital assets	-	(198,462)	-	-	198,462
Correct unavailable revenues (deferred inflows)	-	(2,629,207)	-	2,629,207	-
Projected Errors:	-	-	-	-	-
Correction to other liabilities		(3,650,259)			3,650,259
	$ -	**$(6,477,928)**	**$6,627,933**	**$ 818,931**	**$ (968,936)**

Annuity and Benefit Fund

	Debit (Credit)				
Description	Assets	Liabilities	Net Position	Revenue	Expenses
Carryover impact from previous year	$ -	$ -	$ -	$ -	$ -
Current Year Misstatements					
Correct personal property replacement tax revenues and expenditures	-	-	-	13,329,456	(13,329,456)
	$ -	**$ -**	**$ -**	**$ 13,329,456**	**$(13,329,456)**

Aggregate Non-major Funds

	Debit (Credit)				
Description	Assets	Liabilities	Net Position	Revenue	Expenses
Carryover impact from previous year	$ -	$ -	$2,499,762	$ -	$ (2,499,762)
Current Year Misstatements					
To correct deferred inflows/unavailable grant revenue	-	13,796,336	-	(13,796,336)	-
	$ -	**$13,796,336**	**$2,499,762**	**$(13,796,336)**	**$ (2,499,762)**

Cook County

Ammar M. Rizki
Deputy Chief Financial Officer

Lawrence Wilson
Comptroller

Exhibit B—Recorded Audit Adjustments

Cook County
Adjusting Journal Entries
Year End: November 30, 2014

Description	Debit	Credit
Accounts payable		$ 13,184,135
Capital outlay	$ 13,184,135	
(To record home rule accounts receivable and related revenue)		
Home rule tax revenue		$ 22,177,068
Parking lot and garage operating revenue		3,514,129
Due from others	$ 25,691,197	
	$ 25,691,197	$ 25,691,197
(To record home rule accounts receivable and related revenue)		
Grants - Unearned		$ 5,857,724
Grant revenue - Federal	$ 5,730,645	
Grant revenue - State	127,079	
	$ 5,857,724	$ 5,857,724
(To adjust grant revenue/deferrals to agree to County support)		
Accounts payable		$ 6,590,336
Appropriation adjustment/transfer	$ 6,590,336	
(To reverse encumbrance accounts payable entry)		
Grants - Unearned revenue	$ 8,393,286	
Grant revenue - Federal		$ 3,772,484
Grant revenue - State		2,605,652
Grant revenue - Other		2,015,150
	$ 8,393,286	$ 8,393,286
(To correct earned/unearned grant revenue)		
Loan receivable		$ 20,000,000
Grants revenue - State	$ 20,000,000	
(To adjust allowance for loans receivable)		

Exhibit C—Material Weaknesses and Significant Deficiencies Letter

McGladrey

The Honorable Toni Preckwinkle, County Board President
and Members of the County Board of Commissioners
Cook County, Illinois

In planning and performing our audit of the financial statements of Cook County, Illinois (the "County") as of and for the year ended November 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

We consider the following deficiency in the County's internal control to be a **material weakness**:

Finding 2014–01: ***Financial Accounting and Reporting***

The County continues to have difficulties in the execution of its year-end financial accounting close process and external financial reporting.

Certain general ledger account balances and supporting information and documentation were not adequately reviewed by County personnel resulting in numerous County and auditor adjustments after the trial balances were provided to the auditors.

During our audit we noted the following:

- Adjustments prepared by County personnel after the initial trial balances were provided to the auditors totaled $51 million.
- An error of approximately $3.65 million in the calculation of accrued liabilities.
- Limited analysis of valuation for loans receivable (HOME loan program). As a result of additional analysis an adjustment of $20 million was made to increase the allowance for uncollectable accounts.

- For various self-insured risks, the estimated future liability per the actuary's report was discounted (as allowed under GAAP) at a rate of 3.4%. The discount rate used should be determined by giving consideration to such factors as the settlement rate for those liabilities and the investment yield rate. The investment yield rate for the General Fund has been less than 1% and doesn't support a discount rate of 3.4%. The effect of the difference between the discount rates was approximately a $20 million increase in liabilities. An adjustment was not made because the actuary used conservative methods in other areas of the estimate that were sufficient to offset the high discount rate.

- We noted two cut-off errors relating to cash. The County recorded $8 million of cash in the General Fund that was also reported in the Treasurer's agency fund. Additionally, we noted a deposit ($567 thousand) that was included as a deposit in transit although the amount was not received by the County until after November 30th.

- Other year-end accruals were not accurate such as receivables for home rule taxes for the month of November 2014 were not properly accrued ($25.7 million), entries were required to properly record grant related account balances ($14.2 million), deferred inflows of resources for State revenues were understated by $2.6 million, and accounts payable was understated by $20 million due to an entry made to adjust encumbrances, and due to improper cut off at year-end.

- Personal property replacement tax revenue and the associated expenditure in the Annuity and Benefit Fund were each overstated by $13.3 million.

Additionally, certain financial statement information was not sufficiently reviewed resulting in incomplete and inaccurate disclosures in the draft financial statements:

- Investment risk disclosures required by GASB Statement No. 40 were not accurate and required several revisions. Additionally, there were debt securities for the Public Guardian Fund that were listed as "other" and not broken down into their specific categories.

- The draft financial statements did not properly report the County's defeased debt and included one debt issue that was fully redeemed.

Finally, certain Special Revenue Funds report resources that are restricted to a special purpose. These funds report amounts that are cost allocations from the General Fund Accounts (Public Safety) which are based on FY 2011 allocation percentages.

All material items noted above were corrected in the final financial statements.

The County's policies for year-end financial reporting require that accounting staff reconcile account balances to supporting information/documentation and that account balances and the related support are reviewed and approved by a supervisor. Good internal controls suggest that all significant accounts be reconciled on a regular basis, preferably monthly, to underlying documentation. In addition, all account reconciliations and accruals should be reviewed by another employee to help ensure that the information is accurately accumulated, reported and reconciles to the general ledger. Furthermore, any necessary adjustments should be made in a timely manner and all significant estimates, including assumptions should be assessed annually and reviewed and approved by management.

The accounting software used by the County should be capable of meeting reporting needs, including the proper basis of accounting, budgetary and other controls, and an "adjusting period" to post, close and roll-up year-end entries. Software should minimize the need for manual entries and allow integration with other departments. The financial statements should be prepared in draft form with adequate time for upper management to thoroughly review and resolve any questions or concerns.

All expenditures charged to Special Revenue Funds should be reviewed to ensure they are legitimate charges against the restricted, committed and assigned resources as applicable. Allocations of administrative costs, overhead etc., should be based on recent data, or documentation that supports using an earlier period.

The current accounting software used by the County does not properly accommodate accrual based accounting, requires a massive amount of manual entries, and is not integrated with all fee offices. The degree of manual intervention necessary to close the largely cash basis general ledger, record year-end accrual based entries and conversion entries necessary for the government-wide financial statements leaves inadequate time for the accounting professionals at the County to sufficiently reconcile all accounts, prepare all year-end close entries, review the supporting documentation, etc. This contributes to the number of errors and omissions. Additionally, there has been significant turnover in the Director of Financial Reporting position which has also contributed to the difficulty in preparing accurate timely financial statements.

Under the present system, the County may continue to struggle with its year-end close process and accuracy of its external financial reporting which should be a concern to any user of the County's financial statement information.

Recommendation

In order to improve the County's year-end reporting process which includes improving the quality and timeliness for preparing the year-end CAFR, we recommend the following:

- County personnel should perform more thorough reviews of year-end general ledger account balances, supporting reconciliations, schedules and other documentation.

- The County has begun the process to purchase and implement an ERP (Enterprise Resource Planning) system. The County should have its most technical accounting staff involved in the product selection and implementation process so that this significant investment will enhance the year-end financial reporting process.

- The County needs to accelerate the date it begins its year-end close process. Cash accounts for the month of November should be reconciled by mid January. Various departments and elected offices should have all vendor invoices for the fiscal year charged to the correct fiscal year, approved and forwarded for payment no later than January 15. On February 1 of each year, close procedures and entries should begin. Trial balances, capital assets and long-term obligation documentation should be complete and ready for audit no later than March 15. Entries required after this date should be minimal. Financial statements should be available in draft form by April 15.

- The County should review annually any allocation of expenditures from the Public Safety Fund to Special Revenue Funds due to the restricted nature of those funds. If an allocation of overhead is allowable under the restricted purpose of the revenue source, allocations should be based on recent data, or documentation that supports using an earlier period.

Management Response

Management agrees with the recommendations and will continue its Strategic Plan to implement process improvements that will ensure effective business systems exist when a new ERP system is implemented. During FY2014, the Comptroller's Office continued to make significant improvements to its year-end reporting process:

- Communications to agency and fee offices continued to be done on a regular basis and as a result, most agency and fee offices submitted their information by the requested date of January 31st.
- Bank reconciliations continued to be prepared on a timely basis.

- Various PBC schedules were provided to McGladrey in a timely manner for the FY 2014 audit in comparison to past years.

- Management acknowledges GASB's requirements on the discounting of estimated future liabilities for self-insured risks. Since the County's investments are generally in highly liquid depository accounts, the discount rate is established based on the 3-4 year duration of the self-insurance liabilities and in the absence of a settlement rate. Management will review the feasibility of establishing a settlement rate.

Although significant improvements continue to be made, the Comptroller's Office recognizes that other areas still require improvements and is committed to take the necessary steps to achieve best practice processes that ensure the financial statements continue to be issued accurately within six months.

The County has purchased Oracle E-Business Suite software and plans to contract with an independent verification and validation consultant and is currently conducting a request for proposal process to select an ERP system integrator consultant to support the implementation.

The Comptroller's Office will continue to analyze and implement best practices regarding the County wide yearend closing process to ensure it's as efficient as possible with our current financial systems.

The Comptroller's Office will continue to review balance sheet / general ledger account balances, prepare account reconciliations and prepare the necessary adjustments to determine accurate balances.

The County implemented two tools to better manage HOME Program loans in FY 2015:

- First, the County signed a contract with Amerinational Community Services, Inc. (Amerinational) that began on December 1, 2014 for the FY 2015, to service the Home Program loans and issue monthly and year-end financial reports on annual loan activities including the collections of loan principal and interest. The financial reporting by Amerinational will allow for better follow through on collections.

- In addition, the County had also contracted with SB Freidman and Company to put together a financial analysis tool that will allow County Staff to input information from the Annual Financial Statements information on each project and better predict trends at the properties and where expenditures such as taxes or insurance rates may be affecting overall cash flow.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the following deficiencies in the County's internal control to be **significant deficiencies**:

Finding 2014-02: *Accounting for Capital Assets*

The County does not have sufficient controls over capital asset accounting and inventory tracking.

The schedule supporting the capital asset year-end balances and required disclosures (beginning balances, additions, deletions and ending balances) was revised multiple times by County personnel after first being provided to the auditors. The final changes were provided on April 17, 2015.

The first update to the balances and required disclosures (roll-forward) provided on April 7 contained corrections to depreciation for CIP equipment additions. Also, an additional $1.9 million of disposals was recorded after a separately conducted audit of the vehicle fleet discovered that vehicles auctioned off were not properly removed from the asset population. On April 17, the second update included $1.36 million of accounts payable related additions and $4.05 million of previously unrecorded Cook County Health and Hospital System (CCHHS) asset additions. Additionally, the auditors noted instances of incorrect depreciation of capital assets.

Good internal controls over the custody of capital assets should include assets recorded at the proper historical cost and depreciated using the proper useful life. Construction in process should be recorded in the year that the work is performed and purchased/donated assets should be recorded when acquired. When an asset is tagged for disposal, it should be removed from service and properly disposed. Assets should be recorded as disposals in the year that they are disposed. Inventories of capital assets should be performed on a regular basis.

The County's process for recording additions and deletions, as well as depreciating capital assets, are primarily manual and rely on multiple departments and individuals.

Over and understatement of capital assets, construction in process, depreciation expense, and accumulated depreciation occurred and will most likely continue to occur under the present system.

Recommendation

The County needs to improve controls over capital asset records. This includes recording capital asset additions and deletions monthly, reconciling additions to the capital outlay expenditure accounts monthly, updating capital asset descriptions in the system and implementing an automated system. Additionally, we believe the County should continue conducting physical inventories of its capital assets. This process could be done one department at a time to better manage the process.

Management Response

- Management concurs that the roll-forward was not finalized until April 17th. To address this issue, the Comptroller's Office will continue to send periodic notifications, to all County Departments requesting that the department report all disposals or transfers. Departments will need to submit all FY 2015 disposals by January 2016. The Comptroller's Office will continue to follow up with non-compliant departments as necessary; In addition, the importance of reporting capital assets, including department disposals will continue to be presented at the CFO round table meetings.

- To address the issues with internal control, cost analysis and depreciation calculations, the Comptroller's Office will continue its efforts to utilize the JD Edwards fixed asset module. The system will compile cost data, description and serial numbers while tracking the locations of its capital asset inventory. The Comptroller's Office will also be the custodian department in charge of data integrity and maintenance. To insure improvement of internal controls, assets will be manually created in the fixed asset module by the Comptroller's Office. The asset custodian for each department(s) will identify their new assets based on a quarterly expenditure transaction report. JDE depreciation reports will be processed and audited on an annual basis. The Comptroller's Office will continue to work with the Bureau of Technology to achieve its goal of tracking capital assets in the JDE fixed assets module. The County will continue to conduct physical inventories of its capital assets.

- The JDE fixed asset module has system limitations and will serve as a repository for capital asset inventory records until a new ERP system is implemented. The future ERP system should incorporate an inventory and capital asset module to control financial reporting and inventory tracking.

- •The County purchased Oracle E-Business Suite software and plans to contract with an independent verification and validation consultant and system integrator consultant to support the implementation.

Finding 2014-03: *Grant Accounting*

The County does not adequately account for individual grants in accordance with GASB Statement No. 33. The level of review and reconciliation of year end grant related accounting entries is not sufficient to detect all errors in grant accrual entries.

The County records grant revenues and expenditures on a cash basis during its fiscal year by program. At the end of the year, revenues and expenditures are converted to the accrual basis. The County converts recorded revenue amounts to accrual basis using a formula that compares recorded cash receipts to recorded expenditures on an individual grant basis. If expenditures exceed revenues for an individual grant, the County records a receivable and revenue. If recorded revenue exceeds expenditures for an individual grant, the County records unearned revenue and a reduction in recognized revenue. The County also adjusts its receivable entry to adjust for amounts not received within the 60-day availability period.

During our testing of grant transactions we noted the following:

- For three grants, the County did not recognize earned revenue as the grants were incorrectly identified as being reimbursement basis. This resulted in an auditor proposed adjustment of $8.4 million which was recorded by the County.

- The County did not timely deposit all checks received from the State pertaining to grant reimbursements. Checks totaling approximately $14 million were left un-deposited in County offices for a number of months. This also impacts the accurate reporting of deferred inflows of resources (unavailable grant revenues) because the accounting department was not aware that the funds were received. This error was deemed immaterial and not recorded.

Under a good system of internal control for grants, a system should be in place to assess all significant grants, determine the appropriate accounting recognition relating thereto, accurately track grant receipts and disbursements during the fiscal year, as well as throughout the life of the individual grant, and calculate and report grant receivables, revenue and deferred inflows or unearned revenues, net of an allowance for uncollectable amounts. Additionally, under a good system of internal control, checks and cash received should be deposited daily or by the next business day.

The County has over 100 grants each year that it has to monitor and account for. The present system available to the County is not sophisticated enough for a grant program of the magnitude administered by County personnel. Additionally, those in charge of monitoring grant performance and reporting back to the funding sources are not the same individuals responsible for reporting grants in accordance with GAAP within the financial statements.

Insufficient reporting of grant transactions can result in forfeiture of funding or possible recoupment of grant funds already awarded. Additionally, the level of manual analysis of the grants could lead to financial statement misstatements of grant receivables, revenue, deferred inflows and unearned revenue. Checks that are not deposited in a timely fashion are at risk of loss due to theft or loss.

Recommendation

We recommend that County personnel expand their supervisory review of year-end grant entries to include a separate analysis of all significant amounts, on a grant by grant basis. For larger grants, the grant agreement should be read and understood to determine the grant type and accounting treatment. Because the County has been receiving large grant advance payments under various programs, the County can no longer assume that all grants are reimbursement based grants.

All checks received by the County should be deposited within a day or two of receipt. The County should contact the State Comptroller to determine if a wire transfer of funds could be established to eliminate the need for paper checks.

As the County implements the selected Oracle E-Business ERP system, a detailed assessment of the grant reporting features of each prospective system should be a major consideration in the implementation process.

Management Response

The County receives an average of 100 grants on an annual basis. The County has implemented reforms and continues to review best practices to help ensure that each grant receives proper review to allow for proper correct classification, budgeting, and expenditure of grant funds. In FY 2014, The Department of Budget and Management (DBMS) and Comptroller's Office, in collaboration with other central service and grant-funded departments, continued to utilize and update a Grants Manual to outline grant regulations, policies, procedures, eligible costs, reimbursement requests and deposits, closeout instructions, and other necessary information required to effectively manage grants throughout the entire lifecycle of a grant. The Grants Manual, supported with quarterly workshops, provides training and instruction on administrative, programmatic, and fiscal responsibilities regarding the management of federal, state, and private grants. In addition, each department is required to submit standard forms to the Department of Budget and Management to assist in the review and establishment of all grant budgets in the County's financial system. The documentation required includes:

- A-133 Single Audit Questionnaire: Provides a summary of the grant period, funding agency details, funding agency type and pass thru entity, CFDA number (as necessary), schedule of reimbursement (advance or reimbursable), grant reporting schedule, in addition to other relative information.

- Application/Award Checklist: Provides a summary of information relating to the application or award including grant period, grant description, budget by category, number of personnel, Federal funding Accounting & Transparency Act (FFATA) requirements, performance planned deliverables, certifications, matching requirements, indirect cost and justification, in addition to other relative information.

- Grant Agreement with detailed budget: Provides instruction into the execution and management of the grant including any special conditions, regulatory requirements, reporting requirements, and approved budget details.

- Budget Setup form: Provides detailed information regarding the approved budget by cost code and object account. This form may also include details into the personnel budget and associated personnel in alignment with the grantor approved budget.

In addition to the required documents and review of relevant information, DBMS monitors each department's grant performance by conducting a monthly spending analysis of each grant to review grant budget, expenses, and revenues. DBMS submits the grant performance analysis to each department for review and to provide justification or a corrective action to ensure that grant funds are properly expended and action is taken on a case by case basis. The Comptroller's Office will continue to work with the departments to perform a reconciliation of the expenditures on the general ledger to the grant reports submitted to their grantors on a quarterly basis.

The County continues to utilize the SharePoint site to facilitate the management of grants. The SharePoint site provides access into all required grant information and forms, allowing users to review and share information more effectively such as grant reporting dates and schedules.

The County purchased Oracle E-Business Suite software and plans to contract with an independent verification and validation consultant and system integrator consultant to support the implementation.

Finding 2014-04: *Information Systems*

Cook County does not have sufficient IT systems security policies and procedures and did not perform essential security procedures during FY 2014.

The County was not able to provide documented evidence that management performed an annual user access review for AS/400 based business systems. A periodic user access review is a critical component of information technology security controls needed to ensure user access privileges remain appropriate given changes in employee job related responsibilities and employee turnover. Without a periodic user access review conducted at a minimum on an annual basis, an organization may fail to detect and remove inappropriate user accounts or change user access in a timely manner following employee transfers or departures.

Additionally, the County has not implemented adequate controls to ensure that information technology management employees appropriately monitor and log security activity at the operating system, application and database levels and that identified security violations are reported to senior management. Management has not performed a review of the system administrator activity on JD Edwards, AS/400 and the Mainframe. Absence of logging and monitoring the appropriateness of the noted activity could result in an inability to determine if improper administrative action has occurred. Management does not have logs for review of direct database management activity. Therefore, the risk exists that unauthorized direct data access to the JD Edwards or mainframe databases or other potentially important security related events may not be detected and necessary corrective actions implemented in a timely manner.

Recommendations

We have the following recommendations:

- The County should update its IT related policies and procedures to address all IT security risks which should include annual procedures to review user access and monitor security activity, as discussed above.

- At least annually, the County should perform a comprehensive review of all users' access to financially significant applications. The frequency of such review should be determined based on the County's ability to periodically remove and disable users that no longer need that access to perform their job-related duties, based on the documented business need.

- The County should enhance application and security features by performing the following:

  - ➢ The organization should implement a logging and monitoring system to track system activity, and logs should be reviewed by a competent reviewer, as needed to properly monitor system access.
  - ➢ Underlying databases that are utilized by the JD Edwards and CICS applications should be monitored by a database logging solution.

Management Response

- For fiscal year 2015 the Bureau of Technology (BOT) will work with the Bureau of Finance (BOF) to ensure all JD Edwards One World (Financials) user accounts are jointly reviewed by the BOF and BOT management. The BOT will also perform a comparison against the list of terminated employees to ensure the users in JD Edwards One World system are current. The user account changes and terminated employee lists will be shared with the various departments within the BOT so that similar user maintenance can occur on the AS/400 and Mainframe. BOT management will review the maintenance of the AS/400 and Mainframe.

- The AS/400 Powerlock software logs all file and database access, including JD Edwards One World. The BOT will take the necessary steps to ensure the logs are reviewed periodically by BOT management. All CICS Applications, databases and users are monitored by Acxiom and logging occurs via RACF (Resource Access Control Facility). Managers or department representatives send BOT a request for specific access or specific functions. BOT then decides if the access is warranted and a request is submitted to Acxiom by BOT. If there are any potential violations related to access, a notice of a violation is sent from the Acxiom Security Auditor to BOT. BOT investigates the potential violation and takes the appropriate action(s). BOT management will take the necessary steps to ensure the access logs are reviewed periodically.

Note Regarding Use of This Communication

This communication is intended solely for the information and use of the County Board, the members of the audit Committee, management and others within the organization, and Federal and State granting agencies and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey LLP

Chicago, Illinois
May 31, 2015