

Cook County Health and Hospitals System

Report to the Audit and Compliance Committee
May 31, 2017





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May 31, 2017

Audit and Compliance Committee
Cook County Health and Hospitals System
Chicago, Illinois

We are pleased to present this report related to our audit of the financial statements of Cook County Health and Hospitals System of Illinois (CCHHS) as of and for the year ended November 30, 2016. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for CCHHS's financial reporting process.

This report is intended solely for the information and use of the Audit and Compliance Committee and is not intended to be, and should not be, used by anyone other than this specified party. 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 CCHHS.

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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 financial statement audit 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 | <p>Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated May 1, 2017. 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.</p> |
| Overview of the Planned Scope and Timing of the Financial Statement Audit | <p>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.</p> |
| Accounting Policies and Practices | <p>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.</p> <p>Adoption of, or Change in, Accounting Policies Management has the ultimate responsibility for the appropriateness of the accounting policies used by CCHHS. Following is a description of significant accounting policies or their application that were either initially selected or changed during the year:</p> <ul style="list-style-type: none">• Governmental Accounting Standards Board (GASB) Statement No. 72, <i>Fair Value Measurement and Application</i>• GASB Statement No. 76, <i>The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments</i>• GASB Statement No. 79, <i>Certain External Investment Pools and Pool Participants</i> <p>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.</p> <p>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.</p> |

| Area | Comments |
|--|--|
| Audit Adjustments | Audit adjustments proposed by us and recorded by CCHHS are shown in the attached Summary of Recorded Audit Adjustments. |
| Uncorrected Misstatements | Uncorrected misstatements are summarized in the attached Summary 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 or 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 a Material Weakness in Internal Control Over Financial Reporting | We have separately communicated a material weakness in internal control over financial reporting identified during our audit of the financial statements, and this communication is attached as Exhibit A. |
| Significant Written Communication Between Management and Our Firm | A copy of the significant written communication between our firm and the management of CCHHS, the representation letter provided to us by management, is attached as Exhibit B. |

Summary of Significant Accounting Estimates

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 CCHHS's November 30, 2016, financial statements.

| <u>Estimate</u> | <u>Accounting Policy</u> | <u>Management's Estimation Process</u> | <u>Basis for Our Conclusions on Reasonableness of Estimate</u> |
|---|---|---|---|
| Allowance for Uncollectible Patient Accounts | Accounts receivable are recorded at their estimated net realizable value. | <p>The allowance for uncollectible patient accounts is based on management's estimate of the collectability of identified receivables, based on the payor classification, as well as the aging of the patient accounts.</p> <p>Management determines the allowance for uncollectible patient accounts using allowance percentages based on historical collection experience and management's judgment, applied to an aging of accounts by payor classification. Allowance percentages are developed based on actual collection experience and management's understanding of changes in reimbursement.</p> | <p>We tested underlying information supporting these allowances including the year-end aging reports and collection experience.</p> <p>We also performed a hindsight test of the November 30, 2015, allowance for uncollectible accounts using subsequent collection experience, which indicated that the November 30, 2015, allowance was reasonable.</p> <p>Furthermore, we reviewed the subsequent cash collections of accounts receivable at November 30, 2016, through May 17, 2017, to assess the reasonableness of the November 30, 2016, valuation.</p> <p>Based on subsequent cash collections, we proposed an adjustment, which was recorded by management, to reduce the allowance by approximately \$25.2 million in the November 30, 2016, financial statements.</p> |

| Estimate | Accounting Policy | Management's Estimation Process | Basis for Our Conclusions on Reasonableness of Estimate |
|---|---|---|---|
| Third-Party Settlements Receivable and Payable | <p>Net patient service revenue is reported at estimated realizable amounts from patients, third-party payors, and others for services rendered. Retroactive adjustments under reimbursement agreements with third-party payors are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.</p> | <p>The settlements due from/to third-party payors (primarily Medicare) are based on management's estimate of amounts due from/to Medicare and due to Blue Cross relating to cost report filings and the Blue Cross HMO and PPO agreements, as well as exposure to repayments associated with Recovery Audit Contractor (RAC) and other third-party payor audits.</p> <p>Management calculates third-party settlements receivable and payable based on estimated, filed and settled Medicare and Blue Cross cost reports. Management also relies on experience reporting data received from the Medicare fiscal intermediary and Blue Cross. The settlement accounts include provisions for audit adjustments and unforeseen issues that may arise from future audits.</p> | <p>With the assistance of an RSM reimbursement specialist, we tested management's third-party account roll-forward analysis and supporting schedules by performing analytical and substantive tests of these schedules and third-party account balances on a sample basis. In addition, we read correspondence received during the year from the Medicare fiscal intermediary. We also reviewed the Blue Cross managed care settlement and Uniform Payment Program (UPP) accounts. Based on the testing performed, the third-party settlement receivable and payable appear reasonable.</p> |

| <u>Estimate</u> | <u>Accounting Policy</u> | <u>Management's Estimation Process</u> | <u>Basis for Our Conclusions on Reasonableness of Estimate</u> |
|---|---|--|--|
| Claims Payable – CountyCare | CCHHS records an estimate of amounts payable to providers outside of CCHHS for services provided to CountyCare members. This estimate reflects the projected ultimate cost of services incurred but not paid, net of expected stop-loss insurance recoveries. | Milliman, an independent actuarial firm, was engaged to assist management in estimating the CountyCare claims payable. The actuary used historical claims data, including claims paid between November 30, 2016, and January 31, 2017, to estimate the liability as of November 30, 2016. | <p>We obtained the report prepared by the independent actuary and performed analytical and substantive tests of the underlying data used by the actuary in its valuation. With the assistance of an RSM actuarial specialist, we assessed the reasonableness of actuarial assumptions and methods used.</p> <p>Based on the testing performed, the CountyCare claims liability appears reasonable.</p> |
| Reserve for Repayment to State of Illinois Under Demonstration Project | CCHHS provides an accrual for estimated amounts due to the State of Illinois should CCHHS receive reimbursement in excess of costs of the CountyCare program, as defined, during the period covered by the demonstration project. | Management estimates the reserve by computing an estimate of the Per Member Per Month (PMPM) amounts expended during the reporting period and comparing this estimate to the amount of PMPM reimbursement received. The excess of PMPM reimbursement received over PMPM cost is multiplied by the member months recognized for the period covered by the demonstration project to estimate the repayment obligation. | <p>We tested the schedules and underlying data used to compute the estimate.</p> <p>We made inquiries of management regarding subsequent developments relating to the reserve.</p> <p>Based on the testing performed, the reserve appears reasonable.</p> |

| <u>Estimate</u> | <u>Accounting Policy</u> | <u>Management's Estimation Process</u> | <u>Basis for Our Conclusions on Reasonableness of Estimate</u> |
|----------------------------------|--|---|--|
| Accrued Pension Liability | <p>CCHHS accounts for its portion of the obligations relating to the County's defined benefit pension plan in accordance with GASB Statement No's. 68 and 71. The obligation recorded in CCHHS's fiscal year 2016 financial statements was measured as of December 31, 2015. The County discounts its pension obligation. The discount rate used was 4.15 percent as of December 31, 2015.</p> | <p>County management engaged Buck Consultants (Buck), an independent actuarial firm, to assist management in estimating the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense.</p> <p>Buck uses various information and assumptions, including salary history, years of future service, and mortality to estimate the pension obligation. The amounts are allocated to CCHHS based on covered payroll during the measurement period.</p> | <p>The County audit team obtained the actuarial report prepared by Buck, as well as a copy of the employee census data used in its valuation. The County audit team performed analytical and substantive tests of the covered payroll data and underlying census data.</p> <p>With the assistance of an RSM actuarial specialist, the County audit team reviewed the methodologies and assumptions used by Buck.</p> <p>Based on the testing performed, we concluded that the accrued pension liability is reasonable.</p> |
| Self-Insured Liabilities | <p>CCHHS records an allocation of the County's estimate of the probable loss for workers' compensation, medical malpractice liability and other self-insured claims. The accrued liability represents an estimate of the eventual loss on claims, including claims incurred but not yet reported (IBNR).</p> | <p>County management engaged Aon, an independent actuarial firm, to assist management in estimating the self-insured liabilities.</p> <p>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.</p> | <p>The County audit team obtained the actuary report directly from Aon. The County audit team tested certain source data provided to Aon to the County's books and records.</p> <p>With the assistance of an RSM actuarial specialist, the County audit team reviewed the methods and assumptions used by Aon.</p> <p>Based on the testing performed, we concluded that the self-insured liability estimates were reasonable.</p> |

Summary of Recorded Audit Adjustments

| Description | Increase (Decrease) | | | | |
|---|----------------------|------------------------|-----------------------|-----------------------|-----------------------|
| | Assets | Liabilities | Net Position | Revenue | Expenses |
| To adjust overstated property tax revenue | \$ (3,765,000) | \$ - | \$ - | \$ (3,765,000) | \$ - |
| To reduce allowances for uncollectible patient accounts receivable | 25,211,426 | - | - | 25,211,426 | - |
| To adjust overstated assessment tax liability included in net patient receivables | 18,695,926 | - | - | 18,695,926 | - |
| To adjust overstated liability due to State of Illinois | - | (60,792,288) | - | 60,792,288 | - |
| To adjust overstated salaries and wages liability | - | (4,414,302) | - | - | (4,414,302) |
| To adjust overstated compensated absences liability | - | (565,639) | - | - | (565,639) |
| | <u>\$ 40,142,352</u> | <u>\$ (65,772,229)</u> | - | <u>\$ 100,934,640</u> | <u>\$ (4,979,941)</u> |
| Effect on change in net position | | | 105,914,581 | | |
| Effect on ending net position | | | <u>\$ 105,914,581</u> | | |

Summary of Uncorrected Misstatements

During the course of our audit, we accumulated uncorrected misstatements that were determined by management to be immaterial, both individually and in the aggregate, to the financial position, results of operations, cash flows and related financial statement disclosures. Following is a summary of those differences.

| Description | Increase (Decrease) | | | | |
|---|---------------------|-------------|----------------|-----------------------|-----------------------|
| | Assets | Liabilities | Net Position | Revenue | Expense |
| Reversed opening net position misstatements | \$ - | \$ - | \$ (1,800,000) | \$ (4,750,000) | \$ (2,950,000) |
| Current-year passed adjustments - none | | | | | |
| | <u>\$ -</u> | <u>\$ -</u> | | <u>\$ (4,750,000)</u> | <u>\$ (2,950,000)</u> |
| Effect on change in net position | | | 1,800,000 | | |
| Effect on ending net position | | | <u>\$ -</u> | | |

Exhibit A—Letter Communicating a Material Weakness in Internal Control Over Financial Reporting



RSM US LLP

May 31, 2017

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To Management and the Audit and Compliance Committee
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In planning and performing our audit of the financial statements of Cook County Health and Hospitals System of Illinois (CCHHS) as of and for the year ended November 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered CCHHS'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCHHS's internal control. Accordingly, we do not express an opinion on the effectiveness of CCHHS'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. Therefore, material weaknesses may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness.

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 deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 CCHHS's internal control to be a material weakness:

Finding 2016–001 Inadequate Control over the Preparation of Year-End Financial Statements

CCHHS management did not incorporate all known facts and circumstances when estimating certain liabilities to the State of Illinois and allowances for patient account receivables, before providing draft financial statements to the auditors.

During the audit, CCHHS senior management determined that certain recorded estimated liabilities associated with amounts due to the State of Illinois related to the CountyCare and Provident Hospital access payment programs, did not reflect all currently known facts and circumstances and thus were not accurate in the financial statements presented to the auditors for audit. Senior management's review of the unaudited November 30, 2016, financial statements did not detect the resulting misstatements. As a result, audit adjustments were recorded to reduce amounts due to the State of Illinois by approximately \$60.8 million and to reduce assessment taxes due to the State of Illinois by approximately \$18.7 million.

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As part of its process for establishing the year-end allowance for uncollectible patient accounts receivable, CCHHS management considers a number of factors, including the aging of accounts, historical collection experience by payor, and cash received subsequent to year-end through the date of the year-end financial statement close. However, because of slowed subsequent cash collections, especially from Medicaid managed care payors, the resulting valuation of patient accounts receivable as of November 30, 2016, appeared unreasonably low. Based on the slowed collections, expanding the subsequent period historically used by management in estimating the allowance for uncollectible accounts was necessary to reflect an appropriate allowance amount. As a result, management analyzed subsequent cash receipts through May 17, 2017, relating to November 30, 2016, patient accounts receivable. Based on this analysis, an audit adjustment was recorded to reduce the allowance for uncollectible patient accounts receivable by approximately \$25.2 million. Similarly, based on subsequent disbursement information that was available at the time of the year-end financial statement close, an audit adjustment was recorded to reduce accrued compensated absences by approximately \$566,000.

Governmental Accounting Standards Board (GASB) Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, provides guidance regarding the consideration of subsequent events in financial statement estimates. GASB Statement No. 56 provides that "All information that becomes available prior to the issuance of the financial statements should be adjusted for any changes in estimates resulting from the use of such evidence." Although identifying subsequent events that require adjustment to the financial statements involves the exercise of professional judgment, the realization of assets such as receivables is an estimate that GASB Statement No. 56 specifically contemplates as ordinarily requiring adjustment of the financial statements, because the subsequent events typically represent the culmination of conditions that existed over a relatively long period of time. Additionally, under a good system of internal control, supervisory personnel should review the recording of all year-end adjusting entries to determine if all necessary adjustments have been properly recorded.

According to CCHHS management, these errors were a result of a series of changes initiated at the management level and not communicated to the Chief Financial Officer. When this was discovered a more stringent review of all accounts was initiated. This should not have happened as late as it did based on principles long employed at the health system that changes made after close should be forwarded to the Chief Financial Officer.

Because of the circumstances derived above, net position as reported in the initial draft financial statements was understated by approximately \$105 million.

Recommendation

We recommend that senior management clearly document its judgments and decisions made regarding significant financial statement amounts, and timely review CCHHS's internally-prepared financial statements to ensure that such judgments and decisions are appropriately reflected within those statements.

As part of evaluating all information that becomes available prior to the issuance of the financial statements in adjusting related estimates, we recommend that management consider all facts and circumstances, such as the slowed subsequent cash collections on patient accounts receivable, that would indicate that a longer subsequent cash receipts evaluation period would be appropriate. Although management should continue to make its best accounting estimates as of the date of the year-end financial statement close, such estimates should continue to be evaluated prior to issuance of the financial statements and adjusted, where appropriate, based on subsequent information that becomes available.

Management Response

Management acknowledges the breakdown in communication and has reinforced the principles and procedures we expect all finance department staff to follow. We have further increased the time for the Chief Financial Officer's review of the monthly financial statements. Based on the accounts that were adjusted, we will also be requiring more educational sessions on the Provident Access payments and CountyCare financials. These will include finance, CountyCare, and managed care leadership with the CFO and Deputy CEO for Finance and Strategy conducting the sessions. Finally, we will make a practice of deliberate review of all content for 12 months of financials in person until we see 6 months wherein all principles and procedures were followed.

CCHHS's management response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

This communication is intended solely for the information and use of management, the Audit and Compliance Committee and others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

RSM US LLP

Exhibit B—Significant Written Communication Between Management and Our Firm

Toni Preckwinkle
President
Cook County Board of
Commissioners

John Jay Shannon, MD
Chief Executive Officer
Cook County Health &
Hospitals System

Board Members

M. Hill Hammock
Chairman

Commissioner Jerry Butler
Vice Chairman

Virginia Bishop, MD, MPH

Mary Driscoll, RN, MPH

Ric Estrada

Ada Mary Gugenheim

Emilie N. Junge

Mary B. Richardson-Lowry

Layla P. Suleiman Gonzalez, PhD, JD

Sidney A. Thomas, MSW

Austin Health Center

Cermak Health Services

Children's Advocacy Center

Cicero Health Center

Community Triage Center

Ruth M. Rothstein
CORE Center

Cottage Grove Health Center

CountyCare Health Plan

Englewood Health Center

Fantus Health Center

Logan Square Health Center

Morton East Adolescent
Health Center

Near South Health Center

Oak Forest Health Center

Dr. Jorge Prieto Health Center

Provident Hospital

Cook County Department
of Public Health

Robbins Health Center

John Sengstacke Health Center

John H. Stroger, Jr. Hospital

Vista Health Center

Woodlawn Health Center

May 31, 2017

RSM US LLP
One South Wacker Drive, Suite 800
Chicago, IL 60606

This representation letter is provided in connection with your audit of the financial statements of Cook County Health and Hospitals System of Illinois (CCHHS), an enterprise fund of Cook County, Illinois, as of and for the years ended November 30, 2016 and 2015, 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 of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of May 31, 2017:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated May 1, 2017, 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 Cook County, Illinois (the "County"), the primary government having accountability for CCHHS; other organizations for which the nature and significance of their relationship with CCHHS are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete; and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, have been 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. All leases and material amounts of rental obligations under long-term leases.
 - c. All significant estimates and material concentrations known to management which are required to be disclosed.
 - d. Risk financing activities.
 - e. The effect, if known, on the financial statements of Governmental Accounting Standards Board (GASB) Statements No. 73, 75, 77, 80, 82, 83, 84 and 85 which have been issued, but which we have not yet adopted.
 - f. 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.
 - g. Pension obligations, post-retirement benefits other than pensions and union contract retroactive pay agreements attributable to employee services rendered through November 30, 2016.
 - h. Disclosures related to third-party payor agreements and settlements.
 - i. Disclosures related to professional liability insurance coverage.
 - j. Disclosures related to self-insured risks.
 - k. Amounts of patient charity care and costs of services rendered to the community for a reduced or no fee based upon community need or the inability to pay for the services.
 - l. The nature of and amounts related to the Illinois Medicaid Provider Assessment and Illinois Medicaid Interagency Agreement programs.
 - m. The nature of and amounts related to the CountyCare program.
 - n. The nature of and amounts related to the Provident Hospital access payments program.
9. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated.
10. We agree with the findings of specialists in evaluating the County's pension liabilities, OPEB liabilities and self-insured liabilities, and CCHHS's allocations of such liabilities, and we have adequately considered 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.
11. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with the *Contingencies* Topic of the FASB Accounting Standards Codification and/or GASB Statement No. 10.
12. 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 statements.

13. Relating to CountyCare claims payable, management believes that the claims payable liability is adequate to cover the claims incurred but not paid as of November 30, 2016. However, because of the many variables that can affect the amount of claims that are incurred and the timing of when those claims are reported, and because CountyCare is a relatively new program for which CCHHS has relatively limited claims experience, it is possible that actual claims incurred but not paid could be more or less than the estimated liability included in the financial statements.
14. We have informed you of all uncorrected misstatements.

As of and for the year ended November 30, 2016, 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 financial statements taken as a whole. 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.

As of and for the year ended November 30, 2016

| Description | Increase (Decrease) | | | | |
|---|---------------------|-------------|-----------------------|-----------------------|-----------------------|
| | Assets | Liabilities | Net Position | Revenue | Expense |
| Reversed opening net position misstatements | \$ - | \$ - | \$ (1,800,000) | \$ (4,750,000) | \$ (2,950,000) |
| Current-year passed adjustments - none | | | | | |
| | <u>\$ -</u> | <u>\$ -</u> | | <u>\$ (4,750,000)</u> | <u>\$ (2,950,000)</u> |
| Effect on change in net position | | | (1,800,000) | | |
| Effect on ending net position | | | <u>\$ (1,800,000)</u> | | |

Information Provided

15. We have provided you with:
- 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;
 - Additional information that you have requested from us for the purpose of the audit;
 - Unrestricted access to persons within CCHHS from whom you determined it necessary to obtain audit evidence;
 - Minutes of the meetings of the CCHHS board of directors and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared;
 - Contracts with all significant third-party payors or other providers; and
 - Reports of peer review organizations, fiscal intermediaries, third-party payors, and other regulatory examinations that have been completed in the past year and we have informed you of all such examinations that are currently in process. We are not aware of noncompliance that should be considered for disclosure or as a basis for recording a loss contingency.

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 CCHHS's financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in 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 CCHHS'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 should be considered when preparing the 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 CCHHS'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 CCHHS's ability to record, process, summarize and report financial data.
24. We have informed you of all communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
25. Management of CCHHS believes CCHHS will continue as a going concern.
26. 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.
27. To the best of our knowledge, the liabilities due to the State of Illinois related to the CountyCare and Provident Hospital access payment programs have been satisfied, in full, and no liability is required to be recorded in the financial statements as of November 30, 2016.
28. Included in the financial statements at November 30, 2016 and 2015 is a liability for \$83,000,000 related to the Medicaid expansion period. To the best of our knowledge, this liability remains the best estimate of the amount that CCHHS will ultimately pay.

29. CCHHS maintains a refundable deposit with CCHHS's third-party administrator, Valence, for claims payments related to the CountyCare program. Although we have the ability to request repayment of the deposit within one year based on the current agreement with Valence, it is our intent and expectation to maintain those funds on deposit through at least December 1, 2017, and long-term classification in the November 30, 2016 statement of net position is appropriate.
30. We are responsible for making the accounting estimates included in the financial statements. Those estimates 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. In that regard, adequate provisions have been made:
- a. To reduce receivables to their estimated net collectable amounts.
 - b. For estimated adjustments to revenue, such as denied claims, changes to diagnosis-related group (DRG) assignments, or other estimated retroactive adjustments by third-party payors.
 - c. To reduce obsolete, damaged, or excess inventories to their estimated net realizable values.
 - d. For risk retention, including uninsured losses or loss retentions (deductibles) attributable to events occurring through November 30, 2016, and/or for expected retroactive insurance premium adjustments applicable to periods through November 30, 2016.
 - e. For pension obligations, post-retirement benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through November 30, 2016.
 - f. For obligations related to third-party payor contracts, including risk sharing and contractual settlements.
 - g. For audit and other adjustments by intermediaries, third-party payors, or other regulatory agencies.
 - h. For estimates regarding revenue, accounts receivable, claims expense, claims liability and reserve for possible return of funds related to CountyCare program.
 - i. For medical malpractice obligations expected to be incurred with respect to services provided through November 30, 2016.
31. There are no:
- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
 - b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.

- c. Violations or possible violations of laws or regulations, such as those related to the Medicare and Medicaid antifraud and abuse statutes, including but not limited to the Medicare and Medicaid AntiKickback Statute, Limitations on Certain Physician Referrals (the Stark law), and the False Claims Act, in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency other than those disclosed or accrued in the financial statements.
 - d. Communications, whether oral or written, from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, including those related to the Medicare and Medicaid antifraud and abuse statutes, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
 - e. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by the Contingencies Topic of the FASB Accounting Standards Codification and/or GASB Statement No.10.
 - f. Line of credit or similar arrangements.
 - g. Agreements to repurchase assets previously sold.
 - h. Security agreements in effect under the Uniform Commercial Code.
 - i. 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.
 - j. Contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
 - k. Liabilities which are subordinated in any way to any other actual or possible liabilities.
 - l. Environmental clean-up obligations.
 - m. Material losses to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
 - n. Guarantees, whether written or oral, under which CCHHS is contingently liable.
 - o. Obligations related to providing future services under prepaid health care contracts.
 - p. Long-lived assets, including intangibles, which are impaired or to be disposed of.
 - q. Derivative financial instruments.
 - r. Special or extraordinary items.
 - s. Materially impaired capital assets.
32. Billings to third-party payors comply in all respects with applicable coding principles, laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse), and only reflect charges for goods and services that were medically necessary, properly approved by regulatory bodies (for example, the Food and Drug Administration), if required, and properly rendered.

33. With respect to cost reports:
- a. We have filed (or will file) all required Medicare, Medicaid, and similar reports.
 - b. We are responsible for the accuracy and propriety of all cost reports filed or to be filed.
 - c. All costs reflected on such reports are appropriate, allowable under applicable reimbursement rules and regulations, patient-related, and properly allocated to the applicable payors.
 - d. The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
 - e. All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
 - f. Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based upon historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the entity is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.
34. We have complied with all aspects of contractual agreement and grants that would have a material effect on the 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 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* at 2 CFR 200, because we have received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit. The audit, in connection with the Single Audit Act, is being performed for the County by another independent accounting firm.
35. 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.

Supplementary Information

36. With respect to supplementary combining information presented in relation to the financial statements:
- 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 U.S. GAAP.
 - c. The methods of measurement have not changed from those used in the prior period.

37. With respect to required supplementary information (Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of CCHHS's Proportionate Share of the Net Pension Liability, and the Schedule of County Contributions) presented as required by GASB to supplement the 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 U.S. GAAP.
 - 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:

38. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to CCHHS.
39. We are not aware of any instances that have occurred, or are likely to have occurred, of:
- a. 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.
 - b. Noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts.
 - c. Abuse that could be quantitatively or qualitatively material to the financial statements.
40. We have taken timely and appropriate steps to remedy fraud; noncompliance with provisions of laws, regulations, contracts or grant agreements; or abuse that has been reported.
41. We have a process to track the status of audit findings and recommendations.
42. We have identified for you previous audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and whether related recommendations have been implemented.
43. We have provided you with our views on your reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

44. We acknowledge our responsibilities as it relates to non-audit services performed by you. With respect to your assistance in preparing the financial statements and related footnotes, we assumed all management responsibilities; oversaw the services by designating Dorothy Loving, Executive Director of Finance, who possesses suitable skill, knowledge or experience; evaluated the adequacy and results of the services performed; and accept responsibility for the results of the services.

Cook County Health and Hospitals System



Dr. John Jay Shannon, Chief Executive Officer



Douglas Elwell, Deputy CEO of Finance and Strategy



Ekerete Akpan, Chief Financial Officer



Dorothy Loving, Executive Director of Finance