# Cook County, Illinois

Report to the County President, Board of Commissioners and the Audit Committee
May 29, 2020

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM

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May 29, 2020

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

We are pleased to present this report related to our audit of the basic financial statements of Cook County, Illinois (the County), and the financial statements of the Cook County Treasurer's Office Agency Funds A and D, as of and for the year ended November 30, 2019. 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.

RSM US 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 as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial and related compliance 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 February 5, 2020. 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 dated March 25, 2020 regarding the planned scope and timing of our audit and have discussed with you our identification of significant risks of material misstatement. |
| **Accounting Policies and Practices** | **Preferability of Accounting Policies and Practices**<br>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.<br><br>**Adoption of, or Change in, Accounting Policies**<br>Management has the ultimate responsibility for the appropriateness of the accounting policies used by the County. The County did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.<br><br>**Significant or Unusual Transactions**<br>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.<br><br>**Management's Judgments and Accounting Estimates**<br>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 |
|---|---|
| **Basis of Accounting** | The basic financial statements were prepared on the assumption that the County will continue as a going concern. During the audit, we noted the following events or conditions that indicated there could be substantial doubt about the County's ability to continue as a going concern:<br><br>• Total net position of the primary government at November 30, 2019 was a deficit of $15.897 billion.<br><br>We evaluated the events and conditions and concluded that there was not substantial doubt about the County's ability to continue as a going concern for a reasonable period of time. |
| **Audit Adjustments** | Audit adjustments, other than those that are clearly trivial, proposed by us and recorded by the County are shown in the attached Summary of Recorded Audit Adjustments – Exhibit B. |
| **Uncorrected Misstatements** | Uncorrected misstatements are summarized in the attached Management Representation Letter (Exhibit A) in the Summary of Uncorrected Misstatements (Schedule A). |
| **Other Information in Documents Containing Audited Financial Statements** | Our responsibility for other information in documents containing the County's audited financial statements is to read the information and consider whether its content or manner of its presentation is materially inconsistent with the financial information covered by our auditor's report or whether it contains a material misstatement of fact. We read the County's Transmittal Letter and Statistical Section. We did not identify material inconsistencies with the audited financial statements. |
| **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 basic 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** | During the course of the audit we discussed the County's correction of errors in capital asset balances (construction in progress), and the recording of the correcting entries primarily in the depreciation expense accounts. The correcting entries resulted in an overstatement of FY 2019 depreciation expense by approximately $67.8 million. |
| **Significant Difficulties Encountered in Performing the Audit** | We did not encounter any significant difficulties in dealing with management during the audit. |
| **Letter Communicating Significant Deficiency and Material Weakness in Internal Control Over Financial Reporting** | We have separately communicated the significant deficiency and material weakness in internal control over financial reporting identified during our audit of the basic financial statements as required by *Government Auditing Standards*. This communication is attached as Exhibit C. |

| Area | Comments |
|---|---|
| **Significant Written Communications Between Management and Our Firm** | Copies of material written communications between our firm and the management of the County, including the representation letter provided to us by management, are attached as Exhibit A. |

## 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 the County's November 30, 2019 basic financial statements.

| Estimate | Accounting Policy | Management's Estimation Process | Basis for Our Conclusions on Reasonableness of Estimate |
|---|---|---|---|
| Depreciation of Capital Assets | The County reports its capital assets at net book value. Donated capital assets are recorded at acquisition value. Depreciation of capital assets is over the estimated useful life of the asset on the straight-line basis. | Management establishes estimated useful lives of individual assets based on their expected life and use. Management uses all relevant facts available to them to make the best judgment about useful lives of assets. | We tested the depreciation calculation and determined it was appropriate. We reviewed the established useful lives of assets and found them to be reasonable. We communicated control deficiencies to the County (Exhibit C) related to accounting for capital assets. |
| Self-Insured Risk Liabilities and Expense | The County recognizes an estimate of the probable loss for worker's compensation, medical malpractice, liability, employee health and other claims. The accrued liability and expense represent an estimate of the eventual loss on claims including claims incurred but not reported (IBNR). Amounts are reported in governmental activities and business-type activities (and the CCHHS Fund) based on the nature of the claim. | The County's risk management and legal departments provide details of open cases, loss estimates, claims payment activity and other information to the actuary. This data is used by the actuary to estimate the probable liabilities and related expense based on historical trends and other loss factor data. Employee health claim liabilities are estimated based on lag report data. Management reviews and approves the actuarial results. | We obtained the actuary's report directly from the actuary. We tested certain source data (information on claims and claims payments) provided to the actuary. An RSM actuary reviewed the methods and assumptions used by the County's actuary for reasonableness. We proposed an adjustment for the civil claims liability which was recorded by the County. We obtained and tested the employee health claim lag report. We concluded all adjusted estimates were reasonable. |

| Estimate | Accounting Policy | Management's Estimation Process | Basis for Our Conclusions on Reasonableness of Estimate |
| --- | --- | --- | --- |
| Net Pension Liability and Total OPEB Liability | Net pension liability, total OPEB liability, deferred outflows of resources, deferred inflows of resources and Pension/OPEB expense are reported by the County in accordance with GASB Statements No 68 (pensions) and No 75 (OPEB) in governmental activities and business-type activities (and the CCHHS Fund) based on the proportionate share of each (based on covered payroll for pensions and headcount for OPEB). | The County works with the Plan and the actuary to develop reasonable assumptions such as the long-term rate of return on investments, mortality tables, healthcare cost trend rates and assumptions about future cash flows that impact the discount rate projection. County management obtains Schedules of Pension Amounts and OPEB amounts from the Plan's auditor, which is based on the actuary's calculations, to determine the total amounts related to the County. | We obtained the actuary's pension and OPEB reports and Schedule of Pension/OPEB Amounts directly from the actuary and plan auditor together with confirmation of their independence and objectivity. We also obtained a copy of the employee census data provided to the actuary. On a sample basis, we tested that the census data provided was accurate. An RSM actuary reviewed the methods and assumptions used by the County's actuary. We tested the covered payroll employee headcount data. We concluded the estimates were reasonable. |
| Property Tax Objections Liability | The County records an estimated liability for future refunds related to property tax objections and other matters in governmental activities and business-type activities (and the CCHHS Fund). | The County assesses historical refund activity by refund type and levy year to estimate the 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 tested the historical tax collection and refund activity and recalculated the estimate. We concluded the estimate was reasonable. |

| Estimate | Accounting Policy | Management's Estimation Process | Basis for Our Conclusions on Reasonableness of Estimate |
|---|---|---|---|
| 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 uncollectible 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 concluded the allowance estimate is reasonable. |
| Investments | The County records its investments in accordance with the provisions of GASB 72. Short-term fixed income securities with a final maturity of one year or less from the acquisition date, and investments in the IL Funds pool are at cost. Most other investments are at fair value. | Fair value is generally provided by the custodian. The County reviews the information received to determine it is reasonable. The County's investments that are not at cost, are valued using a quoted price for an identical security or using matrix pricing. The County doesn't have level 3 investments. | We confirmed the County's investments to verify existence. We used a third party pricing service to independently determine fair value as of the County's year end for a sample of investments. We tested fair value classifications and found them to be reasonable. |

# Exhibit A—Significant Written Communications Between Management and our Firm

Bureau of Finance | Office of the Chief Financial Officer
**AMMAR M. RIZKI**
CHIEF FINANCIAL OFFICER
118 N. CLARK STREET ● Chicago, Illinois 60602 ● (312) 603-4458



May 29, 2020

RSM US 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 (the County) as of and for the year ended November 30, 2019 for the purpose of expressing opinions 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 29, 2020:

**Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated February 5, 2020, 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. We acknowledge the significant deficit in net position as displayed in the government-wide financial statements. We have considered the need for an optional note disclosure explaining our plans for addressing the deficit over time; however, we have determined that the financial statements are sufficient for external users.

6. We agree with the findings of specialists in evaluating our self-insurance programs (medical malpractice, workers' compensation, civil, and others), the estimated cost and obligation of other post-employment benefits and the projected net pension liability and other pension amounts, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We have provided all relevant data to the specialists. 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.

7. We believe the $67.8 million correction of construction in progress (CIP) in the FY2019 financial statements is appropriate and is not misleading to the users of the financial statements. This error is an accumulation of unrecorded depreciation expense over an average of 7.5 years. The correction, which overstates FY 2019 expenses, will not cause, or cure, a debt covenant violation in the FY 2019 financial statements, and would not cause, or cure, a violation in the FY 2018 financial statements if either restated or not restated. Additionally, the correction will not impact any granting agency compliance requirements, including reporting requirements.

8. 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 transactions, including interfund accounts, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements 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.

9. Allocations of liabilities to the Cook County Health and Hospital System (CCHHS) are based on the intention that CCHHS will ultimately pay those liabilities in future periods. Liabilities that are not expected to be paid by CCHHS (G.O. Bonds) are not reported in the CCHHS fund or business type activities.

10. 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.

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

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. To the best of our knowledge we have complied with all aspects of contractual agreements 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 Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) 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, 2019, we believe that the effects of the uncorrected misstatements aggregated by you and summarized in Schedule A, 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.

**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 County from whom you determined it necessary to obtain audit evidence; and

d. Minutes of the meetings of the governing boards 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 County'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 the County'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 County'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 U.S. GAAP.

c. The methods of measurement or presentation have not changed from those used in the prior period.

d. When supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date of issuance of the supplementary information and the auditor's report thereon.

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 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:

27. Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.

28. Management is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the County.

29. We are not aware of any 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.

30. We are not aware of any 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.

31. We are not aware of any instances that have occurred, or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements.

32. Management is responsible 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.

33. Management acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.

34. Management 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.

35. Management has a process to track the status of audit findings and recommendations.

36. Management has identified for the auditor previous audits, attestation engagements and other studies related to the audit objectives and whether related recommendations have been implemented.

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

38. Management acknowledges its responsibilities as it relates to non-audit 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.

39. 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,
Chief Executive Officer

Ammar Rizki

Ammar M. Rizki,
Chief Financial Officer

**Schedule A**
**Cook County**
**Summary of Uncorrected Misstatements**
**For the Year Ended November 30, 2019**

**Governmental Activities**

| | Debit (Credit) | | | | |
|---|---|---|---|---|---|
| Description | Assets | Liabilities | Beg. Net Position | Revenue | Expenses |
| Carryover impact from previous year | $ - | $ - | $ 3,592,524 | $ - | $ (3,592,524) |
| Current Year Misstatements | | | | | |
| Correct fixed assets capitalized in improper fiscal year | - | - | 54,784,670 | - | (54,784,670) |
| Correct improper capitalization to construction in progress | - | - | 13,061,338 | - | (13,061,338) |
| Correct understatement of grant receivable | 9,554,789 | - | - | - | - |
| Correct overstatement of cash related to grant receipts | (9,554,789) | - | - | - | - |
| Correct overstatement of accounts receivable | (1,400,877) | - | - | - | 1,400,877 |
| Correct overstatement of property held for resale | (9,570,596) | - | - | - | 9,570,596 |
| Correct improper reclasses of due to other funds | (4,463,329) | 4,463,329 | - | - | - |
| Correct improper reclasses of due to other funds | 4,463,329 | - | - | (4,463,329) | - |
| | $ (10,971,473) | $ 4,463,329 | $ 71,438,532 | $ (4,463,329) | $ (60,467,059) |

**Business-Type Activities and Enterprise Fund (CCHHS)**

| | Debit (Credit) | | | | |
|---|---|---|---|---|---|
| Description | Assets | Liabilities | Beg. Net Position | Revenue | Expenses |
| Carryover impact from previous year | $ - | $ - | $ (4,703,071) | $ 5,271,071 | $ (568,000) |
| Current Year Misstatements | | | | | |
| Current overstated accounts payable | - | 754,502 | - | - | (754,502) |
| Current improper cut-off of expenses | - | - | 2,705,292 | - | (2,705,292) |
| | $ - | $ 754,502 | $ (1,997,779) | $ 5,271,071 | $ (4,027,794) |

**General Fund**

| | Debit (Credit) | | | | |
|---|---|---|---|---|---|
| Description | Assets | Liabilities | Beg. Fund Balance | Revenue | Expenses |
| Carryover impact from previous year | $ - | $ - | $ - | $ - | $ - |
| Current Year Misstatements | | | | | |
| Correct recognition of AOIC revenue | - | - | 7,757,579.00 | (7,757,579.00) | - |
| Correct improper reclasses of due to other funds | 4,463,329 | - | - | (4,463,329.00) | - |
| | $ 4,463,329 | $ - | $ 7,757,579 | $ (12,220,908) | $ - |

**Debt Service Fund**

| | Debit (Credit) | | | | |
|---|---|---|---|---|---|
| Description | Assets | Liabilities | Beg. Fund Balance | Revenue | Expenses |
| Carryover impact from previous year | $ - | $ - | $ (888,071) | $ 888,071 | $ - |
| | $ - | $ - | $ (888,071) | $ 888,071 | $ - |

**Capital Projects Fund**

| | Debit (Credit) | | | | |
|---|---|---|---|---|---|
| Description | Assets | Liabilities | Beg. Fund Balance | Revenue | Expenses |
| Carryover impact from previous year | $ - | $ - | $ (604,411) | $ - | $ 604,411 |
| | $ - | $ - | $ (604,411) | $ - | $ 604,411 |

**Aggregate Non-Major Funds**

| | Debit (Credit) | | | | |
|---|---|---|---|---|---|
| Description | Assets | Liabilities | Beg. Fund Balance | Revenue | Expenses |
| Carryover impact from previous year | $ - | $ - | $ 4,196,935 | $ - | $ (4,196,935) |
| Current Year Misstatements | | | | | |
| Correct understatement of grant receivable | 9,554,789 | - | - | - | - |
| Correct overstatement of cash related to grant receipts | (9,554,789) | - | - | - | - |
| Correct overstatement of accounts receivable | (1,400,877) | - | - | - | 1,400,877 |
| Correct overstatement of property held for resale | (9,570,596) | - | - | - | 9,570,596 |
| Correct improper reclasses of due to other funds | (4,463,329) | 4,463,329 | - | - | - |
| Correct allowance estimate for Clerk of the Circuit Court | (606,221) | 606,221 | - | - | - |
| | $ (16,041,023) | $ 5,069,550 | $ 4,196,935 | $ - | $ 6,774,538 |

# Exhibit B—Recorded Audit Adjustments

## Exhibit B-Recorded Audit Adjustments

| Number | Name | Account No | Debit | Credit |
|---|---|---|---|---|
| RSM-001 | Due From Other Governments | 11100-0000-111011 GF01B | | (3,534,776) |
| RSM-001 | Defer Inflow Of Resources | 11100-0000-202981 GF01B | | (7,757,579) |
| RSM-001 | Undesignated | 11100-0000-300811 GF01B | | (11,292,355) |
| RSM-001 | Unassigned | 11100-0000-300815 GF01B | 11,292,355 | |
| RSM-001 | Social Service - Salaries | 11100-1310-406016 GF01B | 1,329,673 | |
| RSM-001 | Juvenile Ct - Salaries | 11100-1310-406017 GF01B | 2,568,515 | |
| RSM-001 | Adult Probation - Salaries | 11100-1310-406018 GF01B | 2,602,353 | |
| RSM-001 | Pre-Trial Court Salaries | 11100-1310-406019 GF01B | 1,536,158 | |
| RSM-001 | JTDC Juvenile Detention - Salaries | 11100-1310-406024 GF01B | 3,255,656 | |
| | RSM proposed adjustment to correct deferred inflow, accounts receivable, and revenue for AOIC revenues. | | | |
| RSM-002 | Undesignated | 11508-0000-300811 1708 | | (1,712,037) |
| RSM-002 | Unassigned | 11508-0000-300815 1708 | 1,712,037 | |
| RSM-002 | Accounts Payable Trade | 11569-0000-200011 1569 | | (2,325,314) |
| RSM-002 | Computer Equipment | 11569-1009-560226 1569 | | (2,848) |
| RSM-002 | Computer Equipment | 11569-1009-560227 1569 | | (218,127) |
| RSM-002 | Buildings | 11569-1031-560106 1569 | 797,006 | |
| RSM-002 | Building Improvement | 11569-1031-560108 1569 | 238,989 | |
| RSM-002 | Computer Equipment | 11569-1280-560226 1569 | | (4,008) |
| RSM-002 | Computer Equipment | 11569-1335-560227 1569 | 1,514,302 | |
| RSM-002 | Accounts Payable Trade | 11620-0000-200011 11620 | 613,278 | |
| RSM-002 | Computer Equipment | 11620-1009-560226 11620 | | (35,412) |
| RSM-002 | Office Furnishings | 11620-1031-560246 11620 | | (59,382) |
| RSM-002 | Computer Equipment | 11620-1040-560226 11620 | | (8,890) |
| RSM-002 | Computer Equipment | 11620-1161-560226 11620 | | (44,933) |
| RSM-002 | Institutional Equipment | 11620-1200-560156 11620 | | (54,986) |
| RSM-002 | Computer Equipment | 11620-1280-560226 11620 | | (138,000) |
| RSM-002 | Computer Equipment | 11620-1326-560226 11620 | | (29,344) |
| RSM-002 | Computer Equipment | 11620-1500-560226 11620 | | (242,331) |
| | RSM proposed adjustment to correct accounts payable based on disbursements made subsequent to year end. | | | |
| RSM-003 | Undesignated | 11250-0000-300811 GF01C | 17,549,320 | |
| RSM-003 | Unassigned | 11250-0000-300815 GF01C | | (17,549,320) |
| RSM-003 | Accrued Accounts Payable | 11250-1021-200018 GF01C | 17,549,320 | |
| RSM-003 | County Annuity and Benefit | 11250-1021-501622 GF01C | 874 | |
| RSM-003 | Forest Preserve Employees | 11250-1021-501624 GF01C | 10,489 | |
| RSM-003 | COBRA | 11250-1021-501628 GF01C | 1,519 | |
| RSM-003 | Group Dental Insurance | 11250-1021-501650 GF01C | 480,166 | |
| RSM-003 | Group Pharmacy Insurance | 11250-1021-501716 GF01C | 3,407,445 | |
| RSM-003 | County Annuity and Benefit | 11250-1021-501717 GF01C | 5,429 | |
| RSM-003 | Forest Preserve Employees | 11250-1021-501718 GF01C | 34,960 | |
| RSM-003 | Housing Authority | 11250-1021-501719 GF01C | 35,087 | |
| RSM-003 | CC Workforce Partner | 11250-1021-501721 GF01C | 2,822 | |
| RSM-003 | COBRA | 11250-1021-501722 GF01C | 7,479 | |
| RSM-003 | Medical Malpractice | 11250-1021-580143 GF01C | | (19,905,000) |
| RSM-003 | General Liability | 11250-1021-580145 GF01C | | (1,500,000) |
| RSM-003 | Failure to Protect Claims | 11250-1021-580159 GF01C | | (15,000) |
| RSM-003 | Use of Force Claims | 11250-1021-580160 GF01C | | (2,050) |
| RSM-003 | Living Condition Claims | 11250-1021-580161 GF01C | | (9,750) |
| RSM-003 | Denial/Delay of Medication Claims | 11250-1021-580162 GF01C | | (4,790) |
| RSM-003 | Wrongful Incarceration Claims | 11250-1021-580163 GF01C | | (99,000) |
| | RSM proposed adjustment to correct accounts payable based on disbursements made subsequent to year end. | | | |

## Exhibit B-Recorded Audit Adjustments (Continued)

| Number | Name | Account No | Debit | Credit |
|---|---|---|---|---|
| RSM-004 | Accrued Accounts Payable - LOC | 11685-0000-200018 11685 | 7,224,329 | |
| RSM-004 | Reimbursement Designated Fund | 11685-1021-580034 11685 | | (7,224,329) |
| RSM-004 | Restricted | 11700-0000-300715 1700 | | (7,224,329) |
| RSM-004 | Undesignated | 11700-0000-300811 1700 | 7,224,329 | |
| | RSM proposed adjustment to correct short term debt related to the line of credit. | | | |
| RSM-005 | Operating Transfers | 11569-1021-801004 1569 | | (80,105,000) |
| RSM-005 | Line of Credit | 11569-1021-802370 1569 | 80,105,000 | |
| RSM-005 | Accrued Accounts Payable - LOC | 11685-0000-200018 11685 | | (87,329,329) |
| RSM-005 | Reimbursement Designated Fund | 11685-1021-580034 11685 | 7,224,329 | |
| RSM-005 | Operating Transfer Out | 11685-1021-801420 11685 | 80,105,000 | |
| RSM-005 | Undesignated | 11700-0000-300811 1700 | | (87,329,329) |
| RSM-005 | Unassigned | 11700-0000-300815 1700 | 87,329,329 | |
| | RSM proposed adjustment to correct short term debt related to the line of credit. | | | |
| RSM-006 | Due From Other Governments | 11300-1500-111011 SRF01 | 16,725,088 | |
| RSM-006 | State - Allotments | 11300-1500-401117 SRF01 | | (16,725,088) |
| | RSM proposed adjustment to correct motor fuel tax revenue. | | | |
| RSM-007 | Noncurrent Liabilities | Governmental Activities | | (55,000,000) |
| RSM-007 | Government Management & Supporting Services | Governmental Activities | 24,546,382 | |
| RSM-007 | Corrections | Governmental Activities | 9,036,611 | |
| RSM-007 | Courts | Governmental Activities | 16,605,822 | |
| RSM-007 | Control of Environment | Governmental Activities | 59,075 | |
| RSM-007 | Economic Human Development | Governmental Activities | 1,907,486 | |
| RSM-007 | Assessment & Collection of Taxes | Governmental Activities | 1,081,805 | |
| RSM-007 | Election | Governmental Activities | 711,326 | |
| RSM-007 | Transportation | Governmental Activities | 1,051,493 | |
| | RSM proposed adjustment to correct self insurance liability. | | | |

# Exhibit C—Material Weaknesses Letter

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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, 2019, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States, 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. 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 a material weakness and a significant deficiency.

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.

The County's responses to the findings were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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

**Finding 2019–001: Financial Accounting and Reporting**

Condition and Context

The County does not have sufficient controls over capital asset accounting. Due to the decentralized nature of County government, and the historically manual process of compiling capital asset records, there are significant delays in providing complete and accurate capital asset records to the auditors. During the FY 2019 audit process, the initial capital asset schedule was provided to auditors on April 7, 2020 and was revised by the County on four separate occasions with the final schedule not provided until May 26, 2020. Some of the revisions were necessary due to errors and adjustments brought to light during the audit process, and subsequently recorded by management as follows:

- $148 million of capital assets were placed into service in the FY 2019 capital asset schedules, but were in fact placed into service in previous fiscal years. The accumulated depreciation attributable to these previous years was $54.8 million, resulting in an overstatement of opening net position and depreciation expense, for governmental activities. Due to the nature of the error and the impacted balances, the County determined, and the auditors have agreed that it was not necessary to restate FY 2018 net position for governmental activities.

- Amounts disclosed as capital asset additions and deletions were each overstated by $70.2 million in the capital asset schedules provided to auditors, due to these assets being manually added in the prior fiscal year, and then added a second time by the ERP system in the current fiscal year. The County originally adjusted the duplicative accounting by recording capital asset deletions, instead of reducing the additions amount.

- Management capitalized an asset to construction in progress for $15.3 million, but the asset should not have been capitalized until FY 2020.

- $13.1 million of maintenance costs were improperly capitalized in previous fiscal years to construction in progress.

Additionally, due to insufficient supervisory / management review of the trial balances, supporting documents, and schedules relating to debt, revenues/accounts receivable, expenditures/payables, land held for resale, and grants, there were errors detected by the auditors and corrected by management, as noted below:

- Management initially recorded its FY 2019 draw on the PNC Bank line of credit as long-term debt. Because this draw of $80.1 million is due to be repaid in the subsequent fiscal year, it should be recorded as short-term debt in the governmental funds (Debt Service Fund).

- Motor fuel tax revenues received in December 2019, which related to FY 2019 motor fuel sales, did not get recorded by management. This led to the revenue and receivable being understated by $16.7 million in the aggregate non-major funds and governmental activities.

- Accounting entries to record accounts payable included invoices that should not have been recorded in the General Fund as they represented self-insurance claims which were already recorded in the claims payable account for governmental activities ($17.5 million). As a result, the General Fund and governmental activities liabilities and expenses were overstated. Additionally there were invoices relating to fiscal year 2019 that were not accrued in the Capital Projects Fund and governmental activities ($1.7 million).

- Management did not properly evaluate collections of AOIC (Administrative Office of Illinois Courts) revenues, resulting in an overstatement of receivables ($3.5 million) overstatement of revenues ($11.3 million), and an understatement of deferred inflows – unavailable revenue ($7.8 million) in the General Fund.

The following errors noted during the audit were deemed immaterial and not corrected:

- Land held for resale was not recorded at the lower of cost or market value, resulting in an overstatement of assets of $9.5 million in the aggregate non-major funds and governmental activities.

- Management did not properly evaluate grant monies received in December, which resulted in an overstatement of cash and an understatement of grants receivable ($9.6 million) in the aggregate non-major funds and governmental activities.

Criteria
Generally Accepted Accounting Principles require that governmental entities record capital assets at their estimated historical cost, or at acquisition value if donated. Assets that are under construction should remain in the "construction in progress" account until the date the item is placed into service whereupon use of the asset may begin. At this time, the asset should be depreciated over its estimated remaining useful life.

Under a good system of internal control, all significant accounts should be reconciled on a regular basis to the underlying documentation, and thoroughly reviewed by a supervisory employee (other than the preparer), with any necessary adjustments recorded timely. Additionally, the County's policy for year-end financial reporting requires that accounting staff reconcile account balances to supporting information/documentation and that account balances and the related support be reviewed and approved by a supervisor.

Cause
County management stated that a learning curve continues for enhanced County-wide accounting and financial reporting processes because complex ERP system implementations require a period of time for staff to adapt their operating procedures. This resulted in additional time for supervisors / management to analyze balances, reconcile transactions and prepare year-end closing entries and left less time to mentor accounting staff, promote improvements to capital asset procedures and for detailed supervisory/management reviews once the information was prepared. Also, the State of Illinois issued a stay at home order due to the global COVID-19 pandemic right in the middle of the CAFR and external audit processes which resulted in the entire team having to work remotely and created difficulties with impromptu communications as well as made the review process more challenging than usual.

Effect
The financial statements of the County would have been materially misstated without recording several audit adjustments.

Recommendation
To improve the County's year-end financial reporting close process which includes improving the quality and timeliness of preparing the year-end Comprehensive Annual Financial Report, we recommend that County personnel perform more thorough reviews of year-end general ledger account balances, supporting reconciliations, closing entries, schedules and other documentation. Capital asset information that can be accumulated and reviewed prior to fiscal year-end should be completed in advance in order to reduce the amount of work necessary after fiscal year-end.

Management Response
Management agrees with the recommendations and will continue its strategic plan to implement process improvements that will ensure effective County-wide accounting and business systems exist. The Comptroller's Office continued its County-wide communication and follow-up was performed on a regular basis which resulted in the timely submission of requested financial information by most agencies and fee offices. The year-end closing process continues to be a work in progress and should become most efficient with the implementation of standardized County-wide accounting and financial reporting procedures. This should result in automation and streamlining of existing manual County-wide accounting and financial reporting processes. In the meantime, the Comptroller's Office will continue to practice the following to make the year-end closing and CAFR issuance process as efficient as possible.

- Continue to communicate and work with County-wide fee offices and agencies on the timely year-end accrual and closing entries to minimize audit adjustments.
- Execute and review year-end schedules and account reconciliations in a timely manner with the assistance of the County-wide departments.

Although EBS system utilization improvements have been made, the Comptroller's Office recognizes that the County's decentralized structure still requires improvements and is committed to take the necessary steps to achieve best practice processes that ensure the financial statements are issued accurately within six months of the fiscal year-end. The Comptroller's Office will continue to work with County-wide agencies to analyze and implement best practices that address the decentralized processes underlying County-wide accounting and year-end closing processes to ensure they efficiently integrate the EBS and ancillary systems over the coming years. 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. Additionally, the Comptroller's office plans to review and analyze capital expenditure items and invoices on a monthly basis as well as to process capital asset transactions to the EBS Fixed Asset module in a timelier manner. The Comptroller's Office is planning to conduct quarterly meetings with user departments such as the Bureau of Asset Management and the Department of Transportation and Highways to review and analyze project schedules, listings and transactions types to ensure the proper recording and classification of capital expenditures. The Comptroller's Office is planning to prepare the capital asset roll forward audit schedule on a semi-annual basis to assist with identifying and making necessary adjustments in a timelier manner. The Comptroller's Office will continue to conduct training sessions with internal and County-wide capital asset accounting staff as well work to standardize County-wide procedures and promote process improvements. The Comptroller's office will continue to work with the Bureau of Finance and the County's technical teams to review and enhance the existing processes within the EBS Fixed Asset module to improve the efficiency of recording and reporting on capital assets

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 deficiency in the County's internal control to be a significant deficiency:

**Finding 2019–002: Financial Statement Reporting – Cook County Health and Hospital System (CCH)**

<u>Condition and Context</u>
Management did not adequately review the draft financial statements provided to RSM, which resulted in significant adjustments to the presentation of certain amounts within the financial statements, including the statement of net position and the statement of cash flows.

<u>Criteria</u>
A good system of internal control requires that management review all significant accounts and balances recorded and disclosed in the financial statements for completeness and accuracy.

Additionally, CCH's policy for year-end reporting requires that accounting staff reconcile account balances to supporting information/documentation and that account balances and the related support be reviewed and approved by a supervisor.

<u>Cause</u>
CCH management identified that the causes relate to length of time to close various modules needed to generate the final close as well as the presentation of an audit adjustment from the prior year.

<u>Effect</u>
CCH's financial statements would have contained significant misstatements had these items not been identified during the audit and corrected.

Recommendation
We recommend that management increase the level of detail and quality of supervisory review of year-end financial reporting. Specifically, we recommend that management perform a more detailed review of the net position roll-forward, ensuring that the different classes of net position are rolled-forward correctly. We also recommend that management perform a more detailed review of the statement of cash flows to ensure amounts are accurate and classified correctly, including the presentation of negative cash account balances; acquisition of capital assets; real and personal property taxes received; transfers from other County funds; and the reconciliation of operating loss to net cash used in operating activities.

Management Response
CCH management will continue to refine its procedures that will ensure adequate review of accounts and proper financial statement presentation. Continued efforts will be made to performing pre-audit reviews and reconciliations leaving ample time for focused review and response during the audit. Management will also continue to improve coordination and communication with the County Comptroller to improve the time for review and the closing of the general ledger.

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.

RSM US LLP

Chicago, Illinois
May 29, 2020