Cook County, Illinois

Report to the County President, Board of Commissioners and the Audit Committee
May 31, 2019

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May 31, 2019

The Honorable Toni Preckwinkle, County Board President and
Members of the County Board of Commissioners, and
The Honorable John P. Daley, Chairman, Cook County Audit Committee
Cook County, Illinois
118 North Clark Street, Room 1127
Chicago, 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) as of and for the year ended November 30, 2018 and the audit of the Treasurer's Agency Funds A and D. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for the County's financial reporting process.

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

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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 January 29, 2019. 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 19, 2019 regarding the planned scope and timing of our audit and have discussed with you our identification of, and planned audit response to, significant risks of material misstatement.
Accounting Policies and Practices	**Preferability of Accounting Policies and Practices** Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice. **Adoption of, or Change in, Accounting Policies** Management has the ultimate responsibility for the appropriateness of the accounting policies used by the County. Following is a description of significant accounting policies or their application that were either initially selected or changed during the year: The County adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*. The implementation of this standard required a restatement of opening net position in governmental activities, business-type activities and the CCHHS Enterprise Fund. **Significant or Unusual Transactions** We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. **Management's Judgments and Accounting Estimates** Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached Summary of Significant Accounting Estimates.

Area	Comments
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 condition that indicated there could be substantial doubt about the County's ability to continue as a going concern: • Total net position of the primary government at November 30, 2018 was a deficit of $16.560 billion. 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 Exhibit B.
Uncorrected Misstatements	Uncorrected misstatements are summarized in the attached Management Representation Letter (Exhibit A) in the Summary of Uncorrected Misstatements (Schedule A).
Departure From the Auditor's Standard Report	The Auditor's Report contained an Emphasis of Matter paragraph to communicate that the County adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)*. The implementation of this standard required a restatement of opening net position in governmental activities, business-type activities and the CCHHS Enterprise Fund. Our opinion was not modified with respect to this matter.
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	No significant issues arising from the audit were discussed with or were the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.

Area	Comments
Letter Communicating Material Weaknesses in Internal Control Over Financial Reporting	We have separately communicated the significant deficiencies and material weaknesses in internal control over financial reporting identified during our audit of the basic financial statements as required by *Government Auditing Standards*. This communication is attached as Exhibit C.
Significant Written Communications Between Management and Our Firm	Copies of material written communications between our firm and the management of the County, which includes the management representation letter is 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, 2018 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 acquired prior to 12/1/2015 are recorded at estimated fair value at the date of donation, capital assets acquired after that date 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 obtained and tested the employee health claim lag report. We concluded all 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 31, 2019

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 as of and for the year ended November 30, 2018 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 31, 2019:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated January 29, 2019, 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. 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.

8. 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.

9. 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.

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

11. 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.

12. 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.

13. To the best of our knowledge we have informed you of all uncorrected misstatements. As of and for the year ended November 30, 2018, 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

14. 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.

15. All transactions have been recorded in the accounting records and are reflected in the financial statements.

16. 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.

17. 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.

18. 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.

19. 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.

20. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

21. We have disclosed to you the identity of the County's related parties and all the related-party relationships and transactions of which we are aware.

22. 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.

23. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

Supplementary Information

24. 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.

25. 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 changed from those used in the prior period due to the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

Compliance Considerations

In connection with your audit conducted in accordance with *Government Auditing Standards*, we confirm that management:

26. Is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.

27. Is responsible for compliance with the laws, regulations and provisions of contracts and grant agreements applicable to the County.

28. 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.

29. 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.

30. 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.

31. 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.

32. Acknowledges its responsibility for the design, implementation and maintenance of internal controls to prevent and detect fraud.

33. 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.

34. Has a process to track the status of audit findings and recommendations.

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

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

37. 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.

38. 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,
Chief Executive Officer

Ammar M. Rizki,
Chief Financial Officer

Schedule A
Summary of Uncorrected Misstatements
For the Year Ended November 30, 2018

Governmental Activities

Description	Assets	Liabilities	Beg. Net Position	Revenue	Expenses
	Debit (Credit)				
Carryover impact from previous year	$ -	$ -	$ 12,870,762	$ (1,500,000)	$ (11,370,762)
Current Year Misstatements					
Correct capitalization of maintenance expenses	-	-	10,345,281	-	(10,345,281)
Correct fixed assets capitalized in improper fiscal year	-	-	(17,504,777)	-	17,504,777
Correct gross due to/from arising from cash reclass	(1,418,182)	1,418,182	-	-	-
Correct understatement of accounts payable	-	(3,453,935)	-	-	3,453,935
Correct allowance estimate for Clerk of the Circuit Court	(1,600,000)	1,600,000	-	-	-
	$ (3,018,182)	**$ (435,753)**	**$ 5,711,266**	**$ (1,500,000)**	**$ (757,331)**

Business-Type Activities and Enterprise Fund (CCHHS)

Description	Assets	Liabilities	Beg. Fund Balance	Revenue	Expenses
	Debit (Credit)				
Carryover impact from previous year	$ -	$ -	$ 2,556,000	$ 2,220,000	$ (4,776,000)
Current Year Misstatements					
Correct understated property tax revenue	4,711,000	-	-	(4,711,000)	-
Correct understated capital contributions	1,355,071	-	-	(1,355,071)	-
Correct overstated Cermak other receivable	(1,363,000)	-	-	795,000	568,000
	$ 4,703,071	**$ -**	**$ 2,556,000**	**$ (3,051,071)**	**$ (4,208,000)**

General Fund

Description	Assets	Liabilities	Beg. Fund Balance	Revenue	Expenses
	Debit (Credit)				
Carryover impact from previous year	$ -	$ -	$ (1,127,346)	$ (1,477,812)	$ 2,605,158
Current Year Misstatements					
Correct gross due to/from arising from cash reclass	(1,418,182)	1,418,182	-	-	-
	$ (1,418,182)	**$ 1,418,182**	**$ (1,127,346)**	**$ (1,477,812)**	**$ 2,605,158**

Debt Service Fund

Description	Assets	Liabilities	Beg. Fund Balance	Revenue	Expenses
	Debit (Credit)				
Carryover impact from previous year	$ -	$ -	$ -	$ -	$ -
Current Year Misstatements					
Correct understatement of subsidy revenue	888,071	-	-	(888,071)	-
	$ 888,071	**$ -**	**$ -**	**$ (888,071)**	**$ -**

Capital Projects Fund

Description	Assets	Liabilities	Net Position	Revenue	Expenses
	Debit (Credit)				
Carryover impact from previous year	$ -	$ -	$ -	$ -	$ -
Current Year Misstatements					
Correct overstatement of accounts payable	-	604,411	-	-	(604,411)
	$ -	**$ 604,411**	**$ -**	**$ -**	**$ (604,411)**

Aggregate Non-Major Funds

Description	Assets	Liabilities	Beg. Fund Balance	Revenue	Expenses
	Debit (Credit)				
Carryover impact from previous year	$ -	$ -	$ (4,956,172)	$ 4,956,172	$ -
Current Year Misstatements					
Correct understatement of accounts payable	-	(4,196,935)	-	-	4,196,935
Correct allowance estimate for Clerk of the Circuit Court	(1,600,000)	1,600,000	-	-	-
	$ (1,600,000)	**$ (2,596,935)**	**$ (4,956,172)**	**$ 4,956,172**	**$ 4,196,935**

Exhibit B—Recorded Audit Adjustments

Exhibit B-Recorded Audit Adjustments

Number	Name	Account No	Debit	Credit
RSM1	Due From Other Governments	11900-0000-111011 SRF41A		$ (4,465,095)
RSM1	Defer Inflow Of Resourcs	11900-0000-202981 SRF41A	4,465,095	
	RSM proposed entry to reduce receivable and unavailable revenue for accounts not payable not reversed.			
RSM2	Accounts Payable Trade	11300-0000-200011 SRF01		(2,000,000)
RSM2	Trans Specific Activities	11300-1500-520105 SRF01	2,000,000	
	RSM proposed entry to reverse the contra-accrual from the prior year			
RSM3	Accrued Accounts Payable	11563-0000-200018 1563	93,333	
RSM3	Computer Equipment	11563-1021-560226 1563		(93,333)
RSM3	Accrued Accounts Payable	11564-0000-200018 1564	55,840	
RSM3	Contractual-Base Fee	11564-1031-560316 1564		(55,840)
	RSM proposed entry to correct reduce accounts payable			

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, 2018, 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 material weaknesses.

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 deficiencies in the County's internal control to be material weaknesses:

Finding 2018–001: Financial Accounting and Reporting

<u>Condition and Context</u>
Due to insufficient supervisory / management review of the trial balances, supporting documents, and schedules relating to grants, expenditures/payables, and capital assets, there were errors detected by the auditors as noted below.

- $35.1 million of assets were capitalized in fiscal year 2018 but were placed into service in prior fiscal years. The accumulated depreciation attributable to these prior years was $17.5 million, resulting in an understatement of opening net position of $17.6 million. The County's opening net position was not restated as it was deemed immaterial. This error had no impact on year-end net position.

- $10.4 million of maintenance costs were improperly capitalized to construction in progress. An adjustment was recorded by management and reflected in the financial statements.

- The processes for recording current year entries and reversing prior year accruals relating to payables were insufficient and resulted in several accounting errors. Management recorded $2.1 million in adjustments and deemed an additional $4.3 million immaterial to the statements, which was not recorded.

- Management calculated property tax objections using the wrong fiscal year data. This led to the liability and associated expense to be understated by $7.2 million. We proposed an adjustment, which was recorded by management.

- Management initially calculated its year-end grant receivable without including all of fiscal year 2018's related transactions. This led to the receivable and revenue (unavailable revenue in fund statement) being overstated by $4.5 million. We proposed an adjustment, which was recorded by management.

Criteria
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 recently hired accounting staff and for detailed supervisory/management reviews once the information was prepared.

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. 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 mean-time, the Comptroller's Office will continue to practice the following to make the year-end closing and CAFR issuance process as efficient as possible.

- Communicate and work with County-wide fee offices and agencies on the timely and proper recording of fixed assets, 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 the Bureau of Asset Management and the Department of Transportation and Highways to review and analyze the status of County-wide capital and highway projects (projects), implement process improvements to classify projects properly, to provide timely notifications of when the projects are placed into service and to accurately record fixed assets. The Comptroller's Office will continue to work with the 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.

Finding 2018–002: Financial Accounting and Reporting - CCHHS

Condition and Context
During the audit, we identified a number of errors in the financial statements as noted below.

Review of Account Analysis and Adjusted Trial Balance:

We identified multiple areas where supervisory review of year-end account analysis was not sufficiently detailed to identify errors in the underlying analysis that were identified during our audit procedures.

We proposed nine audit adjustments as a result of the errors identified. The following five adjustments were recorded by management:

- Management's review of Provident Hospital capitation payments did not identify an overstatement for $16,080,000 of capitation receivable and capitation revenue.
- Management did not properly adjust capital assets for the capital contributions communicated by the County to CCHHS, which resulted in an understatement of $19,025,000 of capital assets not depreciated, $2,558,000 of capital assets net of accumulated depreciation, $21,616,000 of capital contributions and $33,000 of purchased services, rental and other expenses.
- Management calculated property tax objections using the wrong fiscal year data, which resulted in an understatement of $1,303,000 of property tax objection liability and related expense.
- Management improperly posted adjustments which were passed in conjunction with the fiscal year 2017 audit into the fiscal year trial balance rather than into the fiscal year 2018 trial balance, which resulted in an understatement of $3,425,000 of beginning fiscal year 2018 net position, $780,000 of other receivables, $705,000 of property tax revenues, $1,426,000 of net patient service revenue, $4,170,000 of supplies expense and $606,000 of depreciation expense.
- Management's analysis of required bad debt allowances and provision resulted in reasonable estimates on a combined, entity-wide basis. However, within the individual entity trial balances, management did not fully adjust Provident Hospital's bad debt provision, which resulted in pre-audit net patient service revenue for Provident of negative $6,749,000. An adjustment was recorded to reduce the Provident bad debt provision and increase the Stroger bad debt provision by this amount, with no impact on CCHHS's combined net patient service revenue.

The following four adjustments were deemed immaterial and not recorded by management:

- Management did not properly review property tax receipts, which resulted in an understatement of $4,711,000 of revenues and receivable related to the prior year property tax levy.

- Management did not identify and adjust a misclassification of $4,831,000 between supplies expense and purchased services, rental and other expenses resulting from expenditures appropriated from one expense account that, due to budgetary considerations, were ultimately paid from another expense account.
- As described above, management did not properly adjust capital assets and capital contributions for capital contributions communicated by the County to CCHHS. Approximately $1,355,000 of the total adjustment proposed was not corrected.
- Management did not properly post audit adjustments which were corrected in the prior year financial statements which led to an overstatement for $1,363,000 of other receivables, $795,000 of other revenue and an understatement for $568,000 of purchased services, rental and other expenses.

Additionally, we noted an approximately $2,000,000 debit balance in an accounts payable account resulting from system-generated entries affecting inventories and accounts payable that management had not fully investigated.

Review of Draft Financial Statements:

Management did not adequately review the draft financial statements provided to RSM, which resulted in significant adjustments to the classification of certain amounts within the financial statements, including the statement of cash flows and supplementary combining schedules.

Criteria
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, CCHHS' 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.

Cause
CCHHS management stated that it believes that these issues are primarily due to miscommunication on:

- Application of collections on year-end receivables with regards to Provident Access Payments;
- Reconciliation between the County Comptroller and CCHHS workpapers on final Construction in Process, Capital and Property Tax entries;
- Combining the accurate bad debt provision between Stroger and Provident in order to prevent showing negative net patient service revenue on entity-wide schedules;
- Posting prior-year audit adjustments that were passed on but were mistakenly entered; and
- Reviewing all expenses to make sure they are properly classified on the financials.

Regarding the debit balance in accounts payable, management stated that it believes the account set-up for the automated entries generated from the Oracle Inventory Module implemented in mid-fiscal year 2018 had not been thoroughly analyzed for accuracy.

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

Recommendation
We recommend that management perform a thorough review of year-end account analysis to timely identify and correct errors in the analysis. Management should also ensure that required adjusting journal entries are properly posted to the general leger. This review should include account balances at the individual entity level (e.g. Stroger, Provident, etc.) as well as at the entity-wide level. We also recommend that for

adjusting journal entries recorded based on analysis provided by the County, that CCHHS management confirm the adjusted balances with County management to ensure that all activity has been properly recorded and is consistent with the County's analysis.

Management Response
CCHHS management will follow the recommendations as outlined by the auditor, and will establish procedures to implement the recommendations. Regarding the automated Oracle entries, CCHHS management will establish a review of all system-generated entries, documenting account set-up and any corrections deemed necessary for proper recording of accounting entries. This review and analysis will incorporate both the Supply Chain Management and Financial Reporting teams.

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.

Note Regarding Use of This Communication
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

Chicago, Illinois
May 31, 2019