RSM US LLP

One South Wacker Drive
Suite 800
Chicago, Illinois 60606

O +1 312.634.3400
F +1 312.634.3410

www.rsmus.com

July 22, 2019

The Honorable Chairman John P. Daley
Committee on Finance
118 N. Clark St, Rook 567
Chicago IL 60602

Chairman Daley,

You previously requested a written response to 3 questions sent to us in a letter dated July 18, 2019 pertaining to the FY18 audits of Cook County. Please see your questions, along with our responses below.

Question 1: The CCH audit noted losses for the fiscal year at $330 million dollars? Does this number include all revenues and expenses and managed care operations?

Response: The $330 million loss noted in your question represents the operating loss and excludes nonoperating revenues (property tax, sweetened beverage tax, interest income), contributions of capital assets from the County, and other transfers from the County. The change in net position for FY2018 of $25 million includes all revenues and expenses on an accrual basis and our opinion states that we believe this amount to be materially accurate and fairly presented. This amount does include all of the activities and balances that are part of the CCH entity, including managed care operations.

It is important to note that there are significant estimates necessary in determining the expense amounts for the following areas: pension expense, other post-employment benefit expense (retiree healthcare), insurance expense (workers compensation, medical malpractice) and foreign claims expense pertaining to managed care (CountyCare) members. We believe that the November 30, 2018 estimated liabilities related to these expenses, prepared by management in conjunction with management's specialists (actuaries), are reasonable.

Question 2: Did the audit include an assessment of liabilities related to "bad debt" as discussed in last year's Inspector General report?

Response: Our responsibility as your auditor is to express an opinion on the accuracy of the basic financial statements, which include the notes to those financial statements. Receivables from third-party payors, patients and others resulting from CCH patient services are one component of those financial statements and our audit procedures over the receivable balance recorded by CCH management included an audit of the estimated allowance for uncollectible accounts and the related provision for bad debt. The purpose of those audit procedures performed was to determine if the net accounts receivable balance recorded at November 30, 2018 was reasonable (i.e. expected to be collected). Our audit procedures also included tests over the notes to the financial statements related to the receivables. The purpose of the financial statement audit is not to evaluate the effectiveness of CCH's billing and collection practices, which was the focus of last year's Inspector General's report.

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Question 3: Does the RSM auditor have any recommendations in regard to the recent IG report and any type of outside review that can provide the Independent Board and County Board more transparency when reviewing Hospital finances?

Response: The Independent Board and the County Board should determine if additional footnote disclosures about the nature of intra-entity transactions between the Hospital and CountyCare would be useful for those charged with governance. The current footnote disclosures meet the minimum requirements as outlined in accounting principles generally accepted in the United States of America (U.S. GAAP), however, CCH management has flexibility to add additional disclosures. Also, CCH should document policies and procedures for intra-entity and intra-fund transactions and should consider having the Independent Board approve the policies. If the policies are written and approved, internal audit or any qualified public accounting firm could perform an examination of CCH's compliance with the policies and procedures. The IG report expressed significant concern over the long-term viability of CountyCare based on the balance reported for claims payable which far exceeded the receivable from the State, as of November 30, 2018. Although we don't believe a direct comparison of these two amounts is itself an indication that CountyCare is not sustainable, we agree that it would be appropriate to perform a cash flow projection to determine if the per member per month capitation amount received from the State of Illinois is sufficient to fund CountyCare on a long-term basis, and if not, the amount of subsidy from the County that will be required. Additionally, this information could be useful in any future negotiations with the State.

We appreciate the opportunity to add clarification regarding the results of our audits and our audit procedures. If you should have any additional questions please don't hesitate to reach out. My contact information is:

Linda Abernethy
(847) 413-6248
Linda.abernethy@rsmus.com

Very truly yours,

RSM US LLP

Linda S. Abernethy

Linda S. Abernethy, Partner