

Cook County Health and Hospitals System

Report to the Audit and Compliance Committee
May 30, 2014



May 30, 2014

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

We are pleased to present this report related to our audit of the financial statements of the Cook County Health and Hospitals System of Illinois (CCHHS) for the year ended November 30, 2013. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for CCHHS's financial reporting process.

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

McGladrey LLP

Contents

Required Communications	1 – 2
Summary of Significant Accounting Estimates	3 – 6
Summary of Recorded Audit Adjustments	7
Summary of Uncorrected Misstatements	8
Exhibit A – Letter Communicating Material Weakness in Internal Control Over Financial Reporting	
Exhibit B – Significant Written Communication Between Management and Our Firm	
Representation Letter	

Required Communications

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

Area	Comments
Our Responsibility With Regard to the Financial Statement Audit	Our responsibility under auditing standards generally accepted in the United States of America has been described to you in our arrangement letter dated January 13, 2014.
Overview of the Planned Scope and Timing of the Financial Statement Audit	We have issued a separate communication regarding the planned scope and timing of our audit and have discussed with you our identification of and planned audit response to significant risks of material misstatement.
Accounting Policies and Practices	<p>Preferability of Accounting Policies and Practices</p> <p>Under generally accepted accounting principles, in certain circumstances, management may select among alternative accounting practices. In our view, in such circumstances, management has selected the preferable accounting practice.</p> <p>Adoption of, or Change in, Accounting Policies</p> <p>Management has the ultimate responsibility for the appropriateness of the accounting policies used by CCHHS. Following is a description of significant accounting policies or their application that were either initially selected or changed during the year as a result of the adoption of new accounting pronouncements:</p> <ul style="list-style-type: none"> • GASB Statement No. 60, <i>Accounting and Financial Reporting for Service Concession Arrangements</i> • GASB Statement No. 62, <i>Codification of Accounting and Financial Reporting Contained in Pre-November 31, 1989 FASB and AICPA Pronouncements</i> <p>Significant or Unusual Transactions</p> <p>We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.</p> <p>Management's Judgments and Accounting Estimates</p> <p>Summary information about the process used by management in formulating particularly sensitive accounting estimates and about our conclusions regarding the reasonableness of those estimates is in the attached "Summary of Significant Accounting Estimates."</p>
Audit Adjustments	Audit adjustments proposed by us and recorded by CCHHS are shown on the attached "Summary of Recorded Audit Adjustments."
Uncorrected Misstatements	Uncorrected misstatements are summarized in the attached "Summary of Uncorrected Misstatements."

Area	Comments
Disagreements with Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations with Other Accountants	We are not aware of any consultations management had with other accountants about accounting or auditing matters.
Significant Issues Discussed with Management	No significant issues arising from the audit were discussed or were the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Letter Communicating Material Weakness in Internal Control Over Financial Reporting	We have separately communicated a material weakness in internal control over financial reporting identified during our audit of the financial statements, and this communication is attached as Exhibit A.
Significant Written Communication Between Management and Our Firm	A copy of the significant written communication between our firm and the management of CCHHS, the representation letter provided to us by management, is attached as Exhibit B.

**Cook County Health and Hospitals System
Summary of Significant Accounting Estimates
Year Ended November 30, 2013**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in CCHHS's November 30, 2013 financial statements.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Allowance for Uncollectible Patient Accounts	The allowance for uncollectible patient accounts is based on management's estimate of the collectability of identified receivables, based on the payor classification, as well as the aging of the patient accounts.	Management determines the allowance for uncollectible patient accounts using allowance percentages based on historical collection experience and management judgement, applied to an aging of accounts by payor classification. Allowance percentages are developed based on actual collection experience and management's understanding of changes in reimbursement.	<p>We tested underlying information supporting these allowances including the year-end aging reports and collection experience. We also performed a hindsight test of the November 30, 2012 allowance for uncollectible accounts using subsequent collection experience, which indicated that the November 30, 2012 allowance was conservatively stated.</p> <p>Based on the testing performed, we recommended certain enhancements to the allowance which management implemented, and an adjustment was proposed and recorded based on the enhanced model (see Summary of Recorded Audit Adjustments).</p>

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Allowance for Uncollectible Patient Accounts (continued)			It is our understanding that management intends to continue to use the enhanced model, updated as appropriate based on changes in collection experience, to estimate the allowance for uncollectible patient accounts.
Third-Party Settlements Receivable and Payable	The settlements due from/to third-party payors (primarily Medicare) are based on management's estimate of amounts due from/to Medicare and due to Blue Cross relating to cost report filings and the Blue Cross HMO and PPO agreements, as well as exposure to repayments associated with Recovery Audit Contractor (RAC) and other third-party payor audits.	Management calculates third-party settlements receivable and payable based on estimated, filed and settled Medicare and Blue Cross cost reports. Management also relies on experience reporting data received from the Medicare fiscal intermediary and Blue Cross. The settlement accounts include provisions for audit adjustments and unforeseen issues that may arise from future audits. At November 30, 2013, CCHHS has recorded a specific reserve for Medicare RAC audit exposure.	With the assistance of a McGladrey reimbursement specialist, we tested management's third-party account roll-forward analysis and supporting schedules by performing analytical and substantive tests of these schedules and third-party account balances on a sample basis. In addition, we read correspondence received during the year from the Medicare fiscal intermediary. We also reviewed the Blue Cross managed care settlement and Uniform Payment Program (UPP) accounts. Based on the testing performed, the third-party settlement methodology and RAC audit exposure estimate appear appropriate and reasonable.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Depreciation	CCHHS depreciates its capital assets over their estimated useful lives on a straight-line method, with one-half year's depreciation taken in the year of acquisition. Stroger Hospital's capital assets acquired prior to 2008 are depreciated using a 150% declining balance method.	CCHHS establishes estimated useful lives of individual assets based on their expected life and use.	Based on the testing performed, the process used by CCHHS to determine the estimated useful lives and depreciate its capital assets is appropriate.
Reserve for Tax Objection Suits	An estimate is prepared by Cook County management based on historical trend data, by refund type, by tax year.	Based on historic refund activity, the County takes the average of 10 years of refund activity starting with the second prior year's levy (in FY2013, 2011 would be the second prior year) then the 9 consecutive prior years' activity. This method is applied to both A or Z refunds and Specific Objection Refunds. Illegal rate refunds involve the court system and can take several years to be settled. To estimate the future Illegal Rate refunds liability the County takes the average of the past 10 years starting with the most recent year of known activity. The respective 10 year average is then used to determine each year's liability where the refunds have not been completed. Management reevaluates this estimation each year.	The County audit team reviewed the historical tax collection and refund activity and recalculated the estimate and found it to be reasonable.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Due from State of Illinois – Medicaid Expansion	CCHHS estimates a receivable for capitation payments that will be received, retroactive to the application date, for CountyCare applications pending approval as of the fiscal year-end.	Management estimates the receivable using pending application data provided by a third party administrator, reduced by expected denials based on CCHHS's experience to date. The member months associated with the pending applications are multiplied by the Per Member Per Month (PMPM) reimbursement rate to estimate the receivable.	We tested the schedule of applications submitted and the expected approval rate and determined that the estimated amount due from the State for pending applications that are expected to be approved is reasonable.
Claims Payable – Medicaid Expansion	CCHHS records an estimate of amounts payable to providers outside of CCHHS for services provided to CountyCare members. This estimate reflects the projected ultimate cost of services incurred but not paid, net of expected stop-loss insurance recoveries.	Given the limited claim experience available under the CountyCare program, management estimated claims payable based on an analysis of claims received and paid subsequent to year end. Management estimated the remaining incurred but not reported claim amount based on the member months of service that were provided.	We tested the claims payable estimate by reviewing subsequent invoices received from the third party administrator and other vendors and by recomputing the estimate for claims that were incurred but not reported. We determined that these estimates were reasonable.
Reserve for Repayment to State of Illinois	CCHHS provides an accrual for estimated amounts due the State of Illinois should CCHHS receive reimbursement in excess of costs of the CountyCare program, as defined.	Management estimates the reserve by computing an estimate of the PMPM amounts expended during the reporting period and comparing this estimate to the amount of PMPM reimbursement received. The excess of PMPM reimbursement received over PMPM cost is multiplied by the member months recognized for the year ended November 30, 2013 to estimate the repayment obligation.	We tested the schedules and underlying data used to compute the estimate and determined that the process was appropriate and the estimate was reasonable.

Cook County Health and Hospitals System
Summary of Recorded Audit Adjustments
Year Ended November 30, 2013

Description	Increase (Decrease)				
	Assets	Liabilities	Net Position	Revenue	Expenses
To reduce accrued CountyCare revenue	\$ (31,724,952)	\$ -	\$ -	\$ (31,724,952)	\$ -
To reduce allowance for uncollectible accounts receivable	582,049	-	-	582,049	-
To record revenue and expense related to grant reimbursements	(172,042)	(2,308,859)	-	6,034,757	3,897,940
To record revenue related to prior year grants	-	(6,080,905)	-	6,080,905	-
	<u>\$ (31,314,945)</u>	<u>\$ (8,389,764)</u>	<u>-</u>	<u>\$ (19,027,241)</u>	<u>\$ 3,897,940</u>
Effect on change in net position			(22,925,181)		
Effect on ending net position			<u>\$ (22,925,181)</u>		

Cook County Health and Hospitals System
Summary of Uncorrected Misstatements
Year Ended November 30, 2013

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

Description	Increase (Decrease)				
	Assets	Liabilities	Net Position	Revenue	Expenses
<u>Carryover impact from prior years:</u>	\$ -	\$ -	\$ 3,310,000	\$ (3,310,000)	\$ -
<u>Current year misstatements:</u>					
Accrued liability for understatement	-	1,000,578	(1,000,578)	-	1,000,578
DoPH Grant Revenue (operating)	-	-	-	(2,061,638)	-
DoPH Grant Revenue (nonoperating)	-	-	-	2,061,638	-
Reverse insurance receivable for CountyCare transplant claim	-	2,112,012	(2,112,012)	-	2,112,012
	<u>\$ -</u>	<u>\$ 3,112,590</u>		<u>\$ (3,310,000)</u>	<u>\$ 3,112,590</u>
Effect on change in net position			(6,422,590)		
Effect on ending net position			<u>\$ (3,112,590)</u>		

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



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

In planning and performing our audit of the financial statements of Cook County Health and Hospitals System (the "System") as of and for the year ended November 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the System's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

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

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

CountyCare Analysis and Financial Reporting

During its fiscal year 2013, the System began to enroll patients in CountyCare, a Medicaid expansion demonstration project created under Section 1115 of the Social Security Act. CountyCare represents a significant new expansion of the System's historical role as a provider of health care to one of health risk management. Under CountyCare, the System accepts full financial risk for the provision of health care services to CountyCare enrollees in return for a fixed monthly payment (capitation) for each enrollee. Administration and effective management of a program like CountyCare is extraordinarily complex and requires processes and information that are fundamentally different than those required for the System's historical focus on patient care.

During the audit, we noted a number of limitations and deficiencies in the System's processes for monitoring and accounting for activity under the CountyCare program that resulted in several adjustments which had a material effect on the System's financial statements. Limitations and deficiencies were identified in the design and operation of the System's processes to do the following:

- Follow-up on the status of pending patient applications for enrollment in the program
- Identify the fiscal period to which capitation payments relate
- Estimate accrued revenue for pending applications
- Analyze and estimate the liability for incurred but unpaid claims for services provided to CountyCare enrollees by non-System health care providers (foreign claims)
- Prevent and detect fraudulent foreign claims (although no fraudulent foreign claims were identified during our audit)
- Timely and accurately capture health care services provided to CountyCare enrollees by the System

- Validate coverage of transplant-related services in connection with the System's reinsurance agreement for such services provided to CountyCare enrollees
- Timely identify and/or estimate liabilities to third-party service providers engaged by the System to assist in administering elements of the CountyCare program
- Estimate the full cost of health care services provided to CountyCare enrollees relative to the capitated payments received, as required under the CountyCare contract
- Standardize the analysis and review of significant estimates and related accounting for CountyCare-related activity, including analysis and validation of key enrollment, capitation payment and claim activity used in developing CountyCare-related estimates for completeness, consistency and accuracy
- Assess the overall financial performance of the CountyCare program

In addition to the limitations and deficiencies described above, the lack of accurate, timely information regarding enrollment and claims activity contributed significantly to the System's challenges in accounting for CountyCare activity.

We recommend that the System implement process improvements to address the limitations and deficiencies described above. We also recommend that the System engage an external actuary to assist in estimating the liability for incurred but unpaid foreign claims. These improvements are critical to support the System's plans to transition CountyCare enrollees into a Managed Care Community Network (MCCN) upon the expiration of the Section 1115 demonstration project. We also recommend that the System's Internal Audit department continue to include the CountyCare and MCCN-related activity within the scope of its risk assessment, and to design and execute audits to assist the System in mitigating risk relating to these programs.

Management Response

Follow-up on the status of pending-patient applications for enrollment in the program:

A process to review submitted CountyCare applications to 834 file approvals to the payment on the 820 file will be developed. Submitted applications will be summarized and a follow-up with State officials will be conducted on a monthly basis.

Identify the fiscal period to which capitation payments relate:

As the monthly 820 files are received the payment information will be sorted into the months of coverage so that the revenue can be assigned to the correct period it was earned.

Estimate accrued revenue for pending applications:

As a result of the monthly reconciliation of the submitted CountyCare applications to the 834 files a list of submitted applications that have not been listed on an 834 approval file will be submitted to the State for confirmation of the receipt of the application. The confirmed list of pending applications returned by the State will serve as the inventory of pending CountyCare applications. A log of the number of submitted applications, the number of approved applications, and the number denied applications will be maintained to determine a historical approval rate for submitted applications. An accrual for the revenue of pending applications will use the inventory of pending applications reduced by the approval rate times the PMPM payment rate for the period.

Analyze and estimate the liability for incurred but unpaid claims for services provided to CountyCare enrollees by non-System healthcare providers (foreign claims):

CCHHS will develop a standard model to estimate the IBNR portion of the foreign claims expense. This will begin with paid claims data and an estimate of the lag in the time it takes for a claim to be submitted and a payment made. CCHHS has entered into a contract with a new Third Party Administrator. Finance and the department of managed care will work with the new TPA to establish a strong consistent process.

Prevent and detect fraudulent foreign claims (although no fraudulent foreign claims were identified during our audit):

CCHHS will review paid claims data from the in-house data mart to look for patterns of abuse, duplicate claims, and overutilization to reduce the opportunity for fraudulent foreign claims. The new CCHHS third party administrator will be asked to document its program to prevent fraud and abuse and provide confirmation that it has performed those preventative actions.

Timely and accurately capture health care services provided to CountyCare enrollees by the System:

CCHHS will continue its weekly monitoring of unbilled transactions by payer to insure that all CountyCare services are being charged, coded, billed, and posted as paid in its patient accounting system. This monitoring is performed by Patient Financial Services and Information Services.

Validate coverage of transplant-related services in connection with the System's reinsurance agreement for such services provided to CountyCare enrollees:

As CountyCare is notified of a potential enrollee needing a transplant, the CountyCare Medical Director is to review the patient information and determine whether the treatment will be covered by the reinsurance policy. The CountyCare Medical Director will report to Finance each month the names of enrollees on the list of transplant cases along with the services paid for through the reporting period and whether those services will be reimbursed through the reinsurance vendor. The CountyCare staff will seek reimbursement from the reinsurer at the appropriate times during the treatment and insure that any payments will be deposited in a timely manner.

Timely identify and /or estimate liabilities to third party service providers engaged by the System to assist in administering the elements of the CountyCare program:

CountyCare staff will review and process invoices from vendors in a timely manner. If there are any disputes preventing the vendor payment, the CountyCare staff will recommend to the Finance department an amount that will approximate what liability has been incurred. Finance will use the information provided by CountyCare staff to accrue for all vendor service expense monthly.

Estimate the full cost of health care services provided to CountyCare enrollees relative to the capitated payments received, as required under the CountyCare contract:

CCHHS will estimate the full cost of care for CountyCare patients cared for by CCHHS and at other facilities. There will be monthly reports to compare revenues and expense for CountyCare enrollees on a total dollar basis as well as on a PMPM basis.

Standardize the analysis and review of significant estimates and related accounting for CountyCare related activity, including analysis and validation of key enrollment, capitation, payment, and claim activity used in developing CountyCare-related estimates for completeness, consistency, and accuracy:

CCHHS finance will develop policies and procedures in consultation with CountyCare leadership for the accrual of PMPM revenue, revenue for pending applications, payment of CountyCare vendors, payment of foreign claims for services and supplies, and determining the cost of domestic services. These policies and procedures will be implemented by the end of June 2014 and incorporated into the monthly financial statement production process.

Assess the overall financial performance of the CountyCare program:

CCHHS has already begun a senior management level committee with representatives from Finance, Budget, Administration, Medical Staff, Ambulatory and Community Health Network, and CountyCare staff. The committee is to meet at least monthly and coordinate its activities with the Cook Chief Financial Officer, Comptroller, and Budget Director. The focus of the committee is to review performance and seek ways to insure the success of the CountyCare program.

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.

Following is a description of another identified deficiency in internal control that we determined did not constitute a significant deficiency or material weakness:

Capital Assets (Repeat Comment)

Consistent with our discussions with management, there are potentially several fully depreciated capital assets on the capital asset listing. Many of these items may have either been disposed of, or are no longer being used by, the System. We recommend that the System review the capital asset listing and determine which assets should be removed. Also, we recommend that management consider tagging significant capital assets within the System to support proper safeguarding and asset tracking. These processes will help support an updated capital asset listing that properly reflects the assets being used by the System.

Additionally, the System does not have an adequate system to identify capital asset disposals as they occur. Consequently, the property records may include items that are being depreciated that are no longer in the possession of, or being used by, the System. We recommend that a new system of reporting disposals be established jointly with Cook County (County) to support up-to-date and accurate property records. Periodic physical inventories of significant capital assets should be performed, and a policy should be created to timely communicate disposals to the accounting staff.

Management Response

We agree with this finding, and we are working with Cook County in identifying an adequate system to track the recording, asset location, depreciation and disposals appropriately.

The System's written responses to the control deficiencies identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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



Chicago, Illinois
May 30, 2014

**Exhibit B – Significant Written Communication Between
Management and Our Firm**

COOK COUNTY HEALTH & HOSPITALS SYSTEM

Toni Preckwinkle • President
Cook County Board of Commissioners

John Jay Shannon, MD
Interim Chief Executive Officer
Chief of Clinical Integration
Cook County Health & Hospitals System



Health & Hospitals System Board Members

David Carvalho • Chairman
Jorge Ramirez • Vice Chairman
Commissioner Jerry Butler
Lewis M. Collens
Ada Mary Gugenheim
M. Hill Hammock
Wayne M. Lerner, DPH, FACHE
Rev. Calvin S. Morris, PhD
Luis Muñoz, MD, MPH
Carmen Velasquez
Dorene P. Wiese, EdD

May 30, 2014

McGladrey LLP
One South Wacker Drive, Suite 800
Chicago, IL 60606

This representation letter is provided in connection with your audits of the basic financial statements of Cook County Health and Hospitals System of Illinois (CCHHS), an enterprise fund of Cook County, Illinois, as of and for the years ended November 30, 2013 and 2012 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

We confirm, to the best of our knowledge and belief, as of May 30, 2014:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated January 13, 2014, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.
2. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take.
5. Related-party transactions, including those with Cook County, Illinois (the "County"), the primary government having accountability for CCHHS; other organizations for which the nature and significance of their relationship with CCHHS are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete; and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.
6. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

7. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.
8. The following have been properly recorded and/or disclosed in the financial statements:
 - a. Net positions and fund balance classifications.
 - b. All leases and material amounts of rental obligations under long-term leases.
 - c. All significant estimates and material concentrations known to management which are required to be disclosed.
 - d. Risk financing activities.
 - e. The effect on the financial statements of Governmental Accounting Standards Board (GASB) Statements No. 65, 66, 68, 69, 70, and 71 which have been issued, but which we have not yet adopted.
 - f. Liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
 - g. Pension obligations, post-retirement benefits other than pensions and union contract retroactive pay agreements attributable to employee services rendered through November 30, 2013.
 - h. Disclosures related to third-party payor agreements and settlements.
 - i. Disclosures related to professional liability insurance coverage.
 - j. Disclosures related to self-insured risks.
 - k. Amounts of patient charity care and costs of services rendered to the community for a reduced or no fee based upon community need or the inability to pay for the services.
 - l. The nature of and amounts related to the Illinois Medicaid Provider Assessment and Illinois Medicaid Interagency Agreement programs.
 - m. The nature of and amounts related to the Medicaid Expansion program.
9. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated.
10. We agree with the findings of specialists in evaluating the County's pension liabilities, OPEB liabilities and self-insured liabilities, and we have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
11. We agree with the findings of specialists in evaluating the County's reserves for self-insured risk, or CCHHS's allocation of such reserves, 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 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.

12. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No.5 and/or GASB Statement No.10.
13. We have no direct or indirect, legal or moral obligation for any debt of any organization, public or private that is not disclosed in the financial statements.
14. Relating to CountyCare claims payable, management believes that the claims payable liability is adequate to cover the claims incurred but not paid as of November 30, 2013. However, because of the many variables that can affect the amount of claims that are incurred and the timing of when those claims are reported, and because CountyCare is a new program for which CCHHS has limited claims experience, it is possible that actual claims incurred but not paid could be more or less than the estimated liability included in the financial statements.
15. We have informed you of all uncorrected misstatements.

As of and for the Year Ended November 30, 2013

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

Description	Increase (Decrease)				
	Assets	Liabilities	Net Position	Revenue	Expenses
<u>Carryover impact from prior years:</u>	\$ -	\$ -	\$ 3,310,000	\$ (3,310,000)	\$ -
<u>Current year misstatements:</u>					
Accrued Liability for Understatement	-	1,000,578	(1,000,578)	-	1,000,578
DoPH Grant Revenue (operating)	-	-	-	(2,061,638)	-
DoPH Grant Revenue (nonoperating)	-	-	-	2,061,638	-
Reverse insurance receivable for CountyCare transplant claim	-	2,112,012	(2,112,012)	-	2,112,012
	<u>\$ -</u>	<u>\$3,112,590</u>		<u>\$ (3,310,000)</u>	<u>\$ 3,112,590</u>
Effect on change in net position			(6,422,590)		
Effect on ending net position			<u>\$ (3,112,590)</u>		

Information Provided

16. We have provided you with:
 - a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the CCHHS board of directors and committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - e. Contracts with all significant third-party payors or other providers.
 - f. Reports of peer review organizations, fiscal intermediaries, third-party payors, and other regulatory examinations that have been completed in the past year and we have informed you of all such examinations that are currently in process. We are not aware of noncompliance that should be considered for disclosure or as a basis for recording a loss contingency.
17. All transactions have been recorded in the accounting records and are reflected in the financial statements.
18. 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.
19. We have no knowledge of allegations of fraud or suspected fraud, affecting the entity's financial statements involving:
 - a. Management.
 - b. Employees who have significant roles in the internal control.
 - c. Others where the fraud could have a material effect on the financial statements.
20. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity's financial statements received in communications from employees, former employees, analysts, regulators, or others.
21. 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.
22. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
23. 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.
24. We have informed you of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the CCHHS's ability to record, process, summarize, and report financial data.
25. We are aware of no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
26. Management of CCHHS believes CCHHS will continue as a going concern.

Supplementary Information

27. With respect to supplementary information presented in relation to the financial statements as a whole:
- We acknowledge our responsibility for the presentation of such information.
 - We believe such information, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America.
28. With respect to required supplementary information (Management's Discussion and Analysis and the Schedule of Funding Progress) presented as required by the GASB to supplement the basic financial statements:
- We acknowledge our responsibility for the presentation of such required supplementary information.
 - We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by accounting principles generally accepted in the United States of America.
29. 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.
30. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:
- To reduce receivables to their estimated net collectable amounts.
 - For estimated adjustments to revenue, such as denied claims, changes to diagnosis-related group (DRG) assignments, or other estimated retroactive adjustments by third-party payors.
 - To reduce obsolete, damaged, or excess inventories to their estimated net realizable values.
 - For risk retention, including uninsured losses or loss retentions (deductibles) attributable to events occurring through November 30, 2013, and/or for expected retroactive insurance premium adjustments applicable to periods through November 30, 2013.
 - For pension obligations, post-retirement benefits other than pensions, and deferred compensation agreements attributable to employee services rendered through November 30, 2013.
 - For obligations related to third-party payor contracts, including risk sharing and contractual settlements.
 - For audit and other adjustments by intermediaries, third-party payors, or other regulatory agencies.
 - For estimates regarding revenue, accounts receivable, claims expense, claims liability and reserve for possible return of funds related to Medicaid Expansion program.
 - For medical malpractice obligations expected to be incurred with respect to services provided through November 30, 2013.

31. There are no:

- a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.
- b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.
- c. Violations or possible violations of laws or regulations, such as those related to the Medicare and Medicaid antifraud and abuse statutes, including but not limited to the Medicare and Medicaid Anti-Kickback Statute, Limitations on Certain Physician Referrals (the Stark law), and the False Claims Act, in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency other than those disclosed or accrued in the financial statements.
- d. Communications, whether oral or written, from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, including those related to the Medicare and Medicaid antifraud and abuse statutes, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
- e. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5 and/or GASB Statement No. 10.
- f. Line of credit or similar arrangements.
- g. Agreements to repurchase assets previously sold.
- h. Security agreements in effect under the Uniform Commercial Code.
- i. Liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.
- j. Contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.
- k. Liabilities which are subordinated in any way to any other actual or possible liabilities.
- l. Environmental clean-up obligations.
- m. Material losses to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.
- n. Guarantees, whether written or oral, under which CCHHS is contingently liable.
- o. Obligations related to providing future services under prepaid health care contracts.
- p. Long-lived assets, including intangibles, which are impaired or to be disposed of.
- q. Derivative financial instruments.
- r. Special or extraordinary items.
- s. Materially impaired capital assets.

32. Billings to third-party payors comply in all respects with applicable coding principles and laws and regulations (including those dealing with Medicare and Medicaid antifraud and abuse), and only reflect charges for goods and services that were medically necessary, properly approved by regulatory bodies (for example, the Food and Drug Administration), if required, and properly rendered.
33. With respect to cost reports:
- a. We have filed all required Medicare, Medicaid, and similar reports.
 - b. We are responsible for the accuracy and propriety of all cost reports filed.
 - c. All costs reflected on such reports are appropriate, allowable under applicable reimbursement rules and regulations, patient-related, and properly allocated to the applicable payors.
 - d. The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
 - e. All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
 - f. Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based upon historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the entity is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.
34. We have complied with all aspects of contractual agreements and grants that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are subject to the requirements of the Single Audit Act and OMB Circular No. A-133, because we have received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit. The audit in connection with the Single Audit Act is being performed by another independent accounting firm.
35. In May 2014, CCHHS received a request for recoupment relating to certain discounts taken under the 340B prescription drug discount program related to the Oak Forest facility. After review of the available information and discussion with legal counsel, management has determined that the liability, if any, is underterminable at this time. However, the exposure is not expected to be material to the financial statements.

Compliance Considerations

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

36. We are responsible for:

- a. Compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the County.
- b. Establishing and maintaining effective internal control over financial reporting.

37. We have identified and disclosed to you:

- a. All laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determinations of financial statement amounts or other financial data significant to audit objectives.
- b. Violations (and possible violations) of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for disclosure in the auditor's report on noncompliance.

38. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that has been reported.

39. We have a process to track the status of audit findings and recommendations.

40. We have identified for you previous audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and the corrective action taken to address significant findings and recommendations.

41. We have provided you with our views on your reported findings, conclusions, and recommendations, as well as our planned corrective actions for the report.

42. Dorothy Loving, who has sufficient skills, knowledge, and experience; has supervised, reviewed, and approved, and we take full responsibility for, the financial statements and related notes and acknowledge the auditor's role in the preparation of this information.

Cook County Health and Hospitals System

Dr. John Jay Shannon, Interim Chief Executive Officer



John Cookinham, Chief Financial Officer



Dorothy Loving, Executive Director of Finance

