Cook County, Illinois

Report to the County President, Board of
Commissioners and the Audit Committee
May 31, 2017

RSM US LLP

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May 31, 2017

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, 2016 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 for the County and for the Treasurer's Agency A and D fund audits, (hereinafter "financial statement audits") as well as observations arising from our audits that are significant and relevant to your responsibility to oversee the financial reporting process.

Area	Comments
Our Responsibilities With Regard to the Financial Statement Audit	Our responsibilities under auditing standards generally accepted in the United States of America have been described to you in our arrangement letter dated February 21, 2017. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities, which are also described in that letter.
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	**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 Organization. Effective December 1, 2015, the County adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*. Statement 72 establishes a framework for measuring assets and liabilities that are required to be reported at fair value, and requires certain disclosures about the inputs used in those measurements. Also, donated capital assets are now recorded at acquisition value as opposed to estimated fair value at the date of donation. This statement did not have a material effect on the financial statements. **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.
Financial Statement Disclosures	At your request, we will meet with you to discuss the neutrality, consistency and clarity of the disclosures in the financial statements.

Area	Comments
Audit Adjustments	Audit adjustments proposed by us and recorded by the County are listed as Exhibit B.
Uncorrected Misstatements	Uncorrected misstatements are summarized in the attached Management Representation Letter (Exhibit A) in the Summary of Uncorrected Misstatements (Schedule A).
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 or the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.
Letter Communicating Significant Deficiencies and Material Weaknesses in Internal Control Over Financial Reporting	We have separately communicated the significant deficiency and material weaknesses in internal control over financial reporting identified during our audits as required by *Government Auditing Standards*. All our findings are reported in the Basic Financial Statements and are also included herein as Exhibit C.
Significant Written Communications Between Management and Our Firm	Copies of significant written communications between our firm and the management of the County, including the signed representation letter provided to us by management, are attached as Exhibit A.

Summary of Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. There were no significant estimates for the Treasurer's Agency Funds A and D. The following describes the significant accounting estimates reflected in the County's November 30, 2016 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 communicated a control deficiency to the County (Exhibit C) related to accumulated depreciation. We reviewed the established useful lives of assets and found them to be reasonable.
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 yet 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.

Net Pension Liability	Net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense are reported by the County in accordance with GASB Statement No 68 in governmental activities and business-type activities (and the CCHHS Fund) based on the proportionate share of each (based on covered payroll).	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 and assumptions about future cash flows that impact the discount rate projection. County management obtains a Schedule of Pension Amounts from the Pension Plan's auditor, which is based on the actuary's calculations, to determine the total amounts related to the County. The County uses covered payroll for the measurement period to allocate the pension amounts to governmental activities and business-type activities (and the CCHHS Fund).	We obtained the actuary's report and Schedule of Pension Amounts directly from the actuary and pension plan auditor together with confirmation of their 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 data. We concluded the estimate was reasonable.
Other Post-Retirement Benefit Obligations	The County accounts for its OPEB plan in accordance with GASB 45. The OPEB obligation is reported in governmental activities. The OPEB liability is recognized for the cumulative difference between actual contributions made in relation to the actuarially determined required contribution.	Based on current economic conditions, management determines a discount rate, termination and retirement rates, health care cost trend rates, mortality rates, plan participation rates and other assumptions. They submit employee census data to the actuary with the underlying assumptions. From this, the actuary calculates the actuarially required contribution.	We obtained a copy of the actuary's report, together with confirmation of their 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 for reasonableness. We concluded the estimate was 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 and concluded it to be reasonable.
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.

Exhibit A—Significant Written Communications Between Management and our Firm

Bureau of Finance | Office of the Chief Financial Officer
IVAN SAMSTEIN
CHIEF FINANCIAL OFFICER
118 N. CLARK STREET ● Chicago, Illinois 60602 ● (312) 603-6846

May 31, 2017

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, 2016 for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

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

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated February 21, 2017, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.

2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable and reflect our judgment based on our knowledge and experience about past and current events, and our assumptions about conditions we expect to exist and courses of action we expect to take.

5. We agree with the findings of specialists in evaluating our self-insurance program, the estimated cost of other post-employment benefits and the pension plan's projected net pension liability, 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.

6. 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.

7. 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 (OPEB and G.O. Bonds) are not reported in the CCHHS fund or business type activities.

8. 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.

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

10. 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.

11. To the best of our knowledge we have complied with al 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 Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and have engaged Washington, Pittman & McKeever, LLC to perform this engagement.

12. To the best of our knowledge we have informed you of all uncorrected misstatements. As of and for the year ended November 30, 2016, management believes 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

13. 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; 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.

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

15. 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.

16. 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 internal control.

    c. Others where the fraud could have a material effect on the financial statements.

17. 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.

18. 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.

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

20. 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.

21. 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.

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

Supplementary Information

23. With respect to supplementary information presented in relation to the financial statements as a whole:

    e. We acknowledge our responsibility for the presentation of such information.

    f. We believe such information, including its form and content, is fairly presented in accordance with U.S. GAAP.

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

24. With respect to required supplementary information presented as required by the Governmental Accounting Standards Board (GASB) to supplement the basic financial statements:

    h. We acknowledge our responsibility for the presentation of such required supplementary information.

    i. We believe such required supplementary information is measured and presented in accordance with guidelines prescribed by U.S. GAAP.

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

Compliance Considerations

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

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

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

27. Has identified and disclosed to the auditor all 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.

28. Has identified and disclosed to the auditor all 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.

29. Has identified and disclosed to the auditor all instances that have occurred, or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements.

30. 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.

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

32. 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.

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

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

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

36. 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.

37. During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Cook County, Illinois

Toni Preckwinkle

Toni Preckwinkle,
Chief Executive Officer

Ivan Samstein,
Chief Financial Officer

Schedule A
Cook County
Summary of Uncorrected Misstatements
For the Year Ended November 30, 2016

Governmental Activities

Description	Assets	Liabilities	Beg. Net Position	Revenue	Expenses
	Debit (Credit)				
Carryover impact from previous year	$ -	$ -	$ 11,988,003	$ (1,088,608)	$ (10,899,395)
Current Year Misstatements					
Correct classification of a prepaid asset	588,657	(588,657)	-	-	-
Correct overstatement of accounts payable	-	1,290,281	-	-	(1,290,281)
Correct classification of "Due from Others" as "Due from Other Funds"	(900,000)	900,000	-	-	-
	$ (311,343)	**$ 1,601,624**	**$ 11,988,003**	**$ (1,088,608)**	**$ (12,189,676)**

Business-Type Activities and Enterprise Fund (CCHHS)

Description	Assets	Liabilities	Beg. Net Position	Revenue	Expenses
	Debit (Credit)				
Carryover impact from previous year	$ -	$ -	$ (1,800,000)	$ 4,750,000	$ (2,950,000)
	$ -	**$ -**	**$ (1,800,000)**	**$ 4,750,000**	**$ (2,950,000)**

General Fund

Description	Assets	Liabilities	Beg. Fund Balance	Revenue	Expenses
	Debit (Credit)				
Carryover impact from previous year	$ -	$ -	$ 2,603,628	$ 1,548,240	$ (4,151,868)
Current Year Misstatements					
Correct classification of a prepaid asset	588,657	(588,657)	-	-	-
Correct overstated accounts payable balance	-	1,098,594	-	-	(1,098,594)
	$ 588,657	**$ 509,937**	**$ 2,603,628**	**$ 1,548,240**	**$ (5,250,462)**

Motor Fuel Tax Fund

Description	Assets	Liabilities	Beg. Fund Balance	Revenue	Expenses
	Debit (Credit)				
Carryover impact from previous year	$ -	$ -	$ -	$ -	$ -
Current Year Misstatements					
Correct classification of "Due from Others" as	(900,000)	-	-	-	-
"Due from Other Funds"	900,000	-	-	-	-
	$ -	**$ -**	**$ -**	**$ -**	**$ -**

Debt Service Fund

Description	Assets	Liabilities	Beg. Fund Balance	Revenue	Expenses
	Debit (Credit)				
Carryover impact from previous year to adjust fair value of investment	$ -	$ -	$ 82,659	$ (82,659)	$ -
	$ -	**$ -**	**$ 82,659**	**$ (82,659)**	**$ -**

Capital Projects Fund

Description	Assets	Liabilities	Beg. Fund Balance	Revenue	Expenses
	Debit (Credit)				
Carryover impact from previous year	$ -	$ -	$ -	$ -	$ -
Current Year Misstatements					
Correct overstated accounts payable	-	191,687	-	-	(191,687)
	$ -	**$ 191,687**	**$ -**	**$ -**	**$ (191,687)**

Exhibit B—Recorded Audit Adjustments

Cook County
Year End: November 30, 2016

Account Description	Account Number	Debit	Credit
Due From Others	131010-1100 GF01B		$ (4,597,722)
Parking Lot & Garage Operation	422086-1100 GF01B	$ 4,597,722	
To remove extra month of parking tax revenue.			
Due From Others	131010-1100 GF01B		$ (2,490,964)
State Government	132010-1100 GF01B	$ 2,490,964	
to reclass part of non-retailer home rule tax collected by State to Due from Other Governments vs. Due from Others			
Property Taxes	401110-1303 SRF02	$ 192,041	
Annuity & Benefit Allocation	690500-1303 SRF02		$ (192,041)
To reduce Property Tax Revenues and Expenses to Pension Fund within the A&B Fund.			
Cash - Cook County	110110-1680 1680	$ 510,552	
Interest	580580-1680 1680		$ (510,552)
To record cash refunded to the County for an interest overpayment.			
Cash - Cook County	110110-1900 SRF41A	$ 3,461,337	
State Government	132010-1900 SRF41A		$ (3,461,337)
To correct unrecorded cash.			
Interest PMT Variable Rate	580585-1680 1680	$ 2,709,720	
Pmt to Refunded Bond Escrow Agent	802700-1680 1680		$ (2,709,720)
To record interest expense.			
Accrued Accounts Payable	221040-1300 SRF01		$ (800,450)
Contractual - Base Fee	562140-1300 SRF01	$ 800,450	
To record accounts payable and retainage.			

Exhibit C—Material Weakness and Significant Deficiency 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, 2016, in accordance with auditing standards generally accepted in the United States of America, 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 and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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

Finding 2016–001: Financial Accounting and Reporting

Due to insufficient supervisory review of the trial balances and draft financial statements, there were multiple errors and omissions detected by the auditors, as well as late adjustments provided by County staff as noted below.

- Journal entries prepared by County personnel after the initial trial balances were provided to the auditors' adjusted 14 funds and 91 general ledger accounts. The entries decreased total fund balance for governmental funds by approximately $2 million.
- Capital asset additions were overstated with several additions capitalized twice ($9.6 million).
- Depreciation expense was understated ($2.3 million) and the net book value of capital assets was overstated ($11.1 million) due to a formula error in the County's calculation of year-end balances.

- Capital asset deletions were understated with several disposals not reported to the Comptroller's office for inclusion on the listing ($0.4 million).

- Parking lot and garage operating taxes and receivables were overstated due to a journal entry error which recorded a month of fiscal year 2015's revenue in fiscal year 2016 ($4.6 million).

- The refunding of the 2002B bonds was incorrectly calculated and recorded which resulted in an overstatement of the recorded loss ($2.9 million) and a misclassification of interest expense as other financing use ($2.7 million).

- The long-term debt footnote required multiple revisions to accurately reflect outstanding balances and future payments. The most significant revision corrected the understatement of total required future interest payments ($25 million).

- An incomplete active loan listing was used to determine the year-end allowance for uncollectible loans which resulted in an understatement of both gross loans receivable and the allowance ($75.2 million). There was no impact to loans receivable, net.

- Other cut-off and classification errors totaling approximately $8 million.

All material items noted above were corrected in the County's final issued external financial statements.

The County's policies for year-end financial reporting require that accounting staff reconcile account balances to supporting information/documentation and that account balances and the related support are reviewed and approved by a supervisor. In addition, 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.

County management stated that the current accounting software does not properly accommodate accrual based accounting, requires a massive amount of manual entries, and is not integrated with all fee offices. The degree of manual intervention necessary to close the largely cash basis general ledger, record year- end accrual based entries and conversion entries necessary for the government-wide financial statements leaves inadequate time for the County's accounting professionals to sufficiently reconcile all accounts, prepare all year-end close entries, review the supporting documentation, etc. This contributes to the number of errors and omissions.

Unless controls over the review of trial balances and draft financial statements are improved, the County may continue to have material misstatements in its financial statements.

Recommendation

In order to improve the County's year-end financial reporting close process which includes improving the quality and timeliness of preparing the year-end CAFR, we recommend that County personnel perform more thorough reviews of year-end general ledger account balances, supporting reconciliations, closing entries, schedules and other documentation and the draft financial statements and disclosures. Information that can be accumulated and reviewed prior to fiscal year-end should be done in advance in order to alleviate the amount of work necessary in April and May.

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 in conjunction with the ongoing implementation of a new County-wide ERP system (Oracle EBS). On December 1, 2016 Oracle EBS went live with the Procurement, Accounts Payable, Projects, Fixed Asset and General Ledger modules. The County plans to complete all waves of the Oracle EBS implementation by FY 2018.

During FY2016, The Comptroller's Office continued to improve its year-end reporting process:

- County-wide communication and follow-up was performed on a regular basis which resulted in the timely submission of requested financial information by most agency and fee offices.
- Total amount of adjustments prepared after the initial trial balances were provided to the auditors of approximately $2 million for FY 2016 was significantly less when comparing to the total amount for FY 2015 of approximately $9 million.

The year-end closing process should become most efficient once Oracle EBS is fully implemented resulting 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 follow up with the Department of Planning and Development on the accuracy of their loan listing that is utilized to determine loan receivable and allowance for uncollectible amounts.
- Communicate and work with County-wide fee offices and agencies on the timely and proper recording of 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 improvements continue to be made, the Comptroller's Office recognizes that other areas still require improvements and is committed to take the necessary steps to achieve best practice processes that ensure the financial statements continue to be issued accurately within six months. The Comptroller's Office will continue to work with the County wide agencies to analyze and implement best practices regarding the County wide accounting and year end closing processes to ensure they're as efficient as possible with Oracle EBS 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 2016–002: Inadequate Control over the Preparation of Year-End Financial Statements

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

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

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

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

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

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

Recommendation

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

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

Management Response

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the County's internal control to be a significant deficiency.

Finding 2016-003: Lack of timely review for the "A" Fund bank reconciliation – Cook County Treasurer's Office

The Treasurer must ensure bank reconciliations for all funds are reviewed timely for completeness and accuracy.

Accounting personnel perform the monthly bank reconciliation function. However, there was not a timely review of the monthly "A" Fund bank reconciliations after they were completed during fiscal year 2016.

The Treasurer experienced turnover in several positions during fiscal year 2016. As a result, responsibilities within the Treasurer's office were reallocated and the bank reconciliations were not performed timely.

The timely review by a member of management ensures the checks and balances necessary for strong controls over cash.

Recommendation: We suggest that a member of management review all bank reconciliations for any unusual items, investigate and fully resolve any such items, and document their approval by initialing the form.

Management's Response: In response to this finding, the Treasurer's Office investigated this issue further to ensure that this finding is not repeated. We have implemented a rigorous review process of all monthly bank reconciliations in which it will be required that either a supervisor or the CFO signs off on all monthly reconciliations. This policy requires all signoffs to be completed by the end of the following month. In addition, all reconciliations were retroactively reviewed by the Assistant CFO as well as a staff accountant to ensure the integrity of each bank reconciliation completed during fiscal year 2016.

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

Note Regarding Use of This Communication

This communication is intended solely for the information and use of the County Board, the members of the Audit Committee, management and others within the organization, and Federal and State granting agencies and is not intended to be and should not be used by anyone other than these specified parties.

RSM US LLP

Chicago, Illinois
May 31, 2017