Cook County, Illinois

Report to the County President, Board of Commissioners and the Audit Committee
May 31, 2018

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RSM US LLP

One South Wacker Drive
Suite 800
Chicago, Illinois 60606

O +1 312.634.3400
F +1 312.634.3410

www.rsmus.com

May 31, 2018

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, 2017 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 and *Government Auditing Standards* issued by the Comptroller General of the United States have been described to you in our arrangement letter dated January 17, 2018. 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, 2016, the County adopted the provisions of GASB Statement No. 77, *Tax Abatement Disclosures*. Statement 77 requires disclosure of the County's own tax abatements as well as tax abatements by other governments that impact the County.
Financial Statement Disclosures	**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. At your request, we will meet with you to discuss the neutrality, consistency and clarity of the disclosures in the financial statements.
Audit Adjustments	Audit adjustments proposed by us and recorded by the County are listed as Exhibit B.

Area	Comments
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 Material Weaknesses in Internal Control Over Financial Reporting	We have separately communicated the 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, 2017 financial statements.

Estimate	Accounting Policy	Management's Estimation Process	Basis for Our Conclusions on Reasonableness of Estimate
Depreciation of Capital Assets	The County reports its capital assets at net book value. Donated capital assets acquired prior to 12/1/2015 are recorded at estimated fair value at the date of donation, capital assets acquired after that date are recorded at acquisition value. Depreciation of capital assets is over the estimated useful life of the asset on the straight-line basis.	Management establishes estimated useful lives of individual assets based on their expected life and use. Management uses all relevant facts available to them to make the best judgment about useful lives of assets.	We tested the depreciation calculation and determined it was appropriate. We reviewed the established useful lives of assets and found them to be reasonable. We communicated control deficiencies to the County (Exhibit C) related to accounting for capital assets.
Self-Insured Risk Liabilities and Expense	The County recognizes an estimate of the probable loss for worker's compensation, medical malpractice, liability, employee health and other claims. The accrued liability and expense represent an estimate of the eventual loss on claims including claims incurred but not 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.
Investments	The County records its investments in accordance with the provisions of GASB 72. Short-term fixed income securities with a final maturity of one year or less from the acquisition date, and investments in the IL Funds pool are at cost. Most other investments are at fair value.	Fair value is generally provided by the custodian. The County reviews the information received to determine it is reasonable. The County's investments that are not at cost, are valued using a quoted price for an identical security or using matrix pricing. The County doesn't not have level 3 investments.	We confirmed the County's investments to verify existence. We used a third party pricing service to independently determine fair value as of the County's year end for a sample of investments. We tested fair value classifications and found them to be reasonable.

Exhibit A—Significant Written Communications Between Management and our Firm

Bureau of Finance | Office of the Chief Financial Officer
Ammar M. Rizki
118 N. CLARK STREET • Chicago, Illinois 60602 • (312) 603-6846

May 31, 2018

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, 2017 for the purpose of expressing opinions on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

We confirm, to the best of our knowledge and belief, that as of May 31, 2018:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated January 17, 2018, for the preparation and fair presentation of the financial statements referred to above in accordance with U.S. GAAP.

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

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

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

5. We acknowledge the deficit in net position as displayed in the government-wide financial statements. We have considered the need for an optional note disclosure explaining our plans for addressing the deficit over time; however, we have determined that the financial statements are sufficient for external users.

6. We agree with the findings of specialists in evaluating our self-insurance programs (medical malpractice, workers' compensation, civil, and others), the estimated cost and obligation of other post-employment benefits and the projected net pension liability and other pension amounts, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We have provided all relevant data to the specialists. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

7. Related-party transactions, including those with fiduciary funds and component units for which Cook County is accountable, other organizations for which the nature and significance of their relationship with Cook County are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete, and interfund transactions, including interfund accounts, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements and guarantees, have been recorded in accordance with the economic substance of the transaction and appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

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

9. All events subsequent to the date of the financial statements, and for which U.S. GAAP requires adjustment or disclosure, have been adjusted or disclosed.

10. The balance disclosed in the footnotes for the impact of the future implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ($1.96 Billion) is based on the best information available to us at the time of report issuance. The actual impact on the County's FY2018 opening net position (restatement amount) may differ from this estimate.

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

12. We have no direct or indirect legal or moral obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.

13. To the best of our knowledge we have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are subject to the requirements of Subpart F of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and have engaged Washington, Pittman & McKeever, LLC to perform this engagement.

14. To the best of our knowledge we have informed you of all uncorrected misstatements. As of and for the year ended November 30, 2017, we believe that the effects of the uncorrected misstatements aggregated by you and summarized in Schedule A, are immaterial both individually and in the aggregate, to the opinion units of the basic financial statements. For purposes of this representation, we consider items to be material, regardless of their size, if they involve the misstatement or omission of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Information Provided

15. We have provided you with:

    a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;

    b. Additional information that you have requested from us for the purpose of the audit;

c. Unrestricted access to persons within the 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.

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

17. We have disclosed to you the results of our assessment of risk that the financial statements may be materially misstated as a result of fraud.

18. We have no knowledge of allegations of fraud or suspected fraud affecting the 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.

19. 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.

20. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects were considered when preparing financial statements.

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

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

23. We have informed you of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the County's ability to record, process, summarize and report financial data.

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

Supplementary Information

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

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

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

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

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

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

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

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

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

Compliance Considerations

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

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

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

29. 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.

30. 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.

31. 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.

32. Is responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

34. Has taken timely and appropriate steps to remedy fraud; noncompliance with provisions of laws, regulations, contracts and grant agreements; or abuse that the auditor reports.

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

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

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

38. Acknowledges its responsibilities as it relates to non-audit services performed by the auditor, including a statement that it assumes all management responsibilities; that it oversees the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge or experience; that it evaluates the adequacy and results of the services performed; and that it accepts responsibility for the results of the services.

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

Cook County, Illinois

Toni Preckwinkle,
Chief Executive Officer

Ammar M. Rizki,
Chief Financial Officer

Schedule A
Cook County
Summary of Uncorrected Misstatements
For the Year Ended November 30, 2017

Governmental Activities

	Debit (Credit)				
Description	Assets	Liabilities	Beg. Net Position	Revenue	Expenses
Carryover impact from previous year	$ -	$ -	$ (1,290,281)	$ -	$ 1,290,281
Current Year Misstatements					
Correct classification of a fixed asset between	11,117,286.00	-	-	-	-
depreciable and non-depreciable	(11,117,286.00)	-	-	-	-
Correct expenses for fixed assets capitalized in improper fiscal year	-	-	(17,272,906.00)	-	17,272,906.00
Correct capitalization of maintenance expenses	(3,108,292.00)	-	-	-	3,108,292.00
Correct under-capitalization of accrued expenses	3,864,000.00	-	-	-	(3,864,000.00)
Correct overstated accounts payable balance	-	2,605,158.00	-	-	(2,605,158.00)
Correct overstated interfund balance	(1,500,000.00)	-	-	1,500,000.00	-
Correct expenses recorded in improper fiscal year	-	-	2,541,278.00	-	(2,541,278.00)
	$ (744,292)	**$ 2,605,158**	**$ (16,021,909)**	**$ 1,500,000**	**$ 12,661,043**

Business-Type Activities and Enterprise Fund (CCHHS)

	Debit (Credit)				
Description	Assets	Liabilities	Beg. Fund Balance	Revenue	Expenses
Carryover impact from previous year	$ -	$ -	$ -	$ -	$ -
Current Year Misstatements					
Correct understated property tax revenue	705,032.00	-	-	(705,032.00)	-
Correct overstated unearned revenue balance	-	1,515,000.00	-	(1,515,000.00)	-
Correct understated amortization expense	-	(606,000.00)	-	-	606,000.00
Correct understated accounts payable balance	-	(5,018,000.00)	-	-	5,018,000.00
	$ 705,032	**$ (4,109,000)**	**$ -**	**$ (2,220,032)**	**$ 5,624,000**

General Fund

	Debit (Credit)				
Description	Assets	Liabilities	Beg. Fund Balance	Revenue	Expenses
Carryover impact from previous year	$ -	$ -	$ (1,098,594)	$ -	$ 1,098,594
Current Year Misstatements					
Correct overstated due from state receivable	(684,116.00)	-	-	684,116.00	-
Correct understated use tax revenue	706,304.00	-	-	(706,304.00)	-
Correct overstated accounts payable balance	-	2,605,158.00	-	-	(2,605,158.00)
Correct overstated interfund balance	(1,500,000.00)	-	-	1,500,000.00	-
	$ (1,477,812)	**$ 2,605,158**	**$ (1,098,594)**	**$ 1,477,812**	**$ (1,506,564)**

Schedule A (Continued)

Debt Service Fund

	Debit (Credit)				
Description	Assets	Liabilities	Beg. Fund Balance	Revenue	Expenses
Carryover impact from previous year	$ -	$ -	$ -	$ -	$ -
Current Year Misstatements					
Correct recording of unavailable revenue	-	-	472,951	(472,951)	-
	$ -	**$ -**	**$ 472,951**	**$ (472,951)**	**$ -**

Capital Projects Fund

	Debit (Credit)				
Description	Assets	Liabilities	Net Position	Revenue	Expenses
Carryover impact from previous year	$ -	$ -	$ (191,687)	$ -	$ 191,687
	$ -	**$ -**	**$ (191,687)**	**$ -**	**$ 191,687**

Aggregate Non-Major Funds

	Debit (Credit)				
Description	Assets	Liabilities	Beg. Fund Balance	Revenue	Expenses
Carryover impact from previous year	$ -	$ -	$ -	$ -	$ -
Current Year Misstatements					
Correct expenses recorded in improper fiscal year	-	-	2,541,278	-	(2,541,278)
Correct errors made in calculating year-end grant receivable and deferred inflows	(1,261,819)	6,217,991	-	(4,956,172)	-
	$ (1,261,819)	**$ 6,217,991**	**$ 2,541,278**	**$ (4,956,172)**	**$ (2,541,278)**

Exhibit B—Recorded Audit Adjustments

Number	Name	Account No	Debit	Credit
RSM001	Unavailable Revenue - Other	11659-0000-202981 1659		$ (261,863.00)
RSM001	Build America Bonds (Babs)	11659-1021-404020 1659	$ 261,863.00	
RSM001	Unavailable Revenue - Other	11673-0000-202981 1673		(36,004.00)
RSM001	Federal Government	11673-1021-404016 1673	36,004.00	
RSM001	Unavailable Revenue - Other	11747-0000-202981 1747		(249,449.00)
RSM001	Build America Bonds (Babs)	11747-1021-404020 1747	249,449.00	
	RSM proposed entry to correct the recording of revenues not received within the County's period of availability.			
RSM002	Accounts Payable Trade	11300-0000-200011 SRF01	2,000,000.00	
RSM002	Trans Specific Activities	11300-1500-520105 SRF01		(2,000,000.00)
	To adjust double accrual of a $2M payment to CTA.			
RSM003	Accounts Payable Trade	11300-0000-200011 SRF01		(480,337.00)
RSM003	Maintenance of Facilities	11300-1500-540380 SRF01	480,337.00	
	Audit adjustment to record additional MFT AP/Retainage			
RSM004	Accounts Payable Trade	11563-0000-200011 1563	93,333.00	
RSM004	Computer Equipment	11563-1021-560226 1563		(93,333.00)
RSM004	Accounts Payable Trade	11564-0000-200011 1564	55,840.00	
RSM004	Contractual-Base Fee	11564-1031-560316 1564		(55,840.00)
RSM004	Accounts Payable Trade	11569-0000-200011 1569		(2,384,145.00)
RSM004	Computer Equipment - GASB51	11569-1009-560227 1569	143,419.00	
RSM004	Medical Dental and Lab Equip	11569-1014-560186 1569	86,123.00	
RSM004	Medical Dental and Lab Equip	11569-1014-560186 1569		(446,667.00)
RSM004	Computer Equipment - GASB51	11569-1029-560227 1569	242,081.00	
RSM004	Computer Equipment - GASB51	11569-1029-560227 1569		(614,469.00)
RSM004	Computer Equipment	11569-1030-560226 1569	4,875.00	
RSM004	Consulting and Management Ser	11569-1031-520850 1569		(278,359.00)
RSM004	Buildings	11569-1031-560106 1569	251,264.00	
RSM004	Building Improvements	11569-1031-560108 1569	288,228.00	
RSM004	Building Improvements	11569-1031-560108 1569		(60,353.00)
RSM004	Building Improvements	11569-1031-560108 1569	2,345,655.00	
RSM004	Computer Equipment	11569-1040-560226 1569	74,158.00	
RSM004	Computer Equipment	11569-1050-560226 1569	27,490.00	

Exhibit B—Recorded Audit Adjustments (Continued)

Number	Name	Account No	Debit	Credit
RSM004	Computer Equipment	11569-1217-560226 1569	79,488.00	
RSM004	Computer Equipment - GASB51	11569-1217-560227 1569	99,118.00	
RSM004	Medical Dental and Lab Equip	11569-1259-560186 1569	21,000.00	
RSM004	Computer Equipment - GASB51	11569-1280-560227 1569	121,094.00	
RSM004	Accounts Payable Trade	11570-0000-200011 11570		(2,588.00)
RSM004	Building Improvements	11570-1031-560108 11570	2,588.00	
RSM004	Accounts Payable Trade	11618-0000-200011 1618		(3,898.00)
RSM004	Building Improvements	11618-1031-560108 1618	3,898.00	
RSM004	Accounts Payable Trade	11619-0000-200011 1619		(296,894.00)
RSM004	Building Improvements	11619-1031-560108 1619	296,894.00	
RSM004	Accounts Payable Trade	11620-0000-200011 11620		(15,391.00)
RSM004	Computer Equipment	11620-1009-560226 11620	165,160.00	
RSM004	Computer Equipment - GASB51	11620-1009-560227 11620	71,459.00	
RSM004	Maintenance Of Facilities	11620-1200-540380 11620	30,753.00	
RSM004	Computer Equipment	11620-1217-560226 11620		(129,464.00)
RSM004	Computer Equipment - GASB51	11620-1217-560227 11620		(122,517.00)
	Audit adjustment for Capital Projects Fund AP/Retainage Errors.			
RSM005	Miscellaneous Receivables	11300-1500-110915 SRF01		(505,876.00)
RSM005	Highway - Other Revenue	11300-1500-407121 SRF01	505,876.00	
	RSM adjusting entry to remove revenue and miscellaneous receivable related to Highway which was improperly included within the Project Module process.			
RSM006	Due From Other Governments	11100-0000-111011 GF01B	3,943,226.00	
RSM006	Deferred Inflow of Resources	11100-0000-202981 GF01B		(6,475,118.00)
RSM006	Social Service - Salaries	11100-1310-406016 GF01B	283,304.00	
RSM006	Juvenile Ct - Salaries	11100-1310-406017 GF01B	604,857.00	
RSM006	Adult Probation - Salaries	11100-1310-406018 GF01B	565,575.00	
RSM006	Pre-Trial Court Salaries	11100-1310-406019 GF01B	289,961.00	
RSM006	JTDC Juvenile Detention Cente	11100-1310-406024 GF01B	788,195.00	
	RSM adjusting entry to increase unavailable revenue/receivable related to AOIC reimbursement revenue from the State.			
RSM007	Accounts Payable Trade	11300-0000-200011 SRF01		(4,140,691.00)
RSM007	Maintenance of Facilities	11300-1500-540380 SRF01	4,140,691.00	
	To accrue for FY17 MFT amounts that exceed County's estimate for unrecorded AP.			

Exhibit C—Material Weaknesses Letter

RSM US LLP

One South Wacker Drive
Suite 800
Chicago, Illinois 60606

O +1 312.634.3400
F +1 312.634.3410

www.rsmus.com

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, 2017, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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

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 2017–001: Financial Accounting and Reporting

Condition and Context

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

- Management did not properly calculate the receivable, revenue and deferred inflow of resources amounts for State of Illinois grant reimbursements relating to salaries within the State's Attorney and Chief Judge Offices. As a result, the General Fund receivable amount was understated $3.9 million, revenue was overstated $2.5 million and the deferred inflow of resources was understated $6.4 million. In addition, governmental activities revenues and receivables were understated by $3.9 million. We proposed an adjustment which was recorded by management.

- Receivables and revenues in the Motor Fuel Tax Fund and governmental activities were overstated by $506 thousand because a project module entry was not properly reversed. We proposed adjustments which were recorded by management.

  Management determines the balances of grants receivable, unearned revenue, deferred inflows of resources and revenue using an excel spreadsheet. There was a formula error in the worksheet which caused the County's closing entries to be misstated. Receivables were overstated $1.3 million, deferred inflows were overstated by $6.2 million, and revenues were understated $4.9 million in the Grants Fund. In addition, governmental activities revenues and receivables were overstated by $1.3 million. We proposed adjustments which were deemed immaterial and passed on being recorded by management.

- Management did not reverse prior year payable accruals which led to capital additions being over capitalized by $18.5 million. We proposed an adjustment which was recorded by management.

- $17.3 million of assets were capitalized in fiscal year 2017 but were placed into service in fiscal year 2016, and $11.1 million of assets were improperly classified as construction in progress after being placed into service. We proposed adjustments which were deemed immaterial and passed on being recorded by management.

- $3.9 million of asset additions were not capitalized and $3.1 million of maintenance costs were improperly capitalized. We proposed adjustments which were deemed immaterial and passed on being recorded by management.

- Expenditures and liabilities in the Motor Fuel Tax Fund and governmental activities were understated by $5.6 million because the estimate for unbilled payables was not sufficient. We proposed adjustments which were recorded by management.

- Expenditures and liabilities in the Capital Projects Fund and governmental activities were understated $2.6 million due primarily to unrecorded retainage payable. We proposed adjustments which were recorded by management.

- Expenditures and liabilities in the General Fund and governmental activities were overstated $2.6 million due to prior period amounts that should have been reversed. Aggregate Non-major Fund expenditures and governmental activities expenses included $2.5 million of fiscal year 2016 expenditures/expenses in fiscal year 2017. We proposed adjustments which were deemed immaterial and passed on being recorded by management.

Criteria

Under a good system of internal control, all significant accounts should be reconciled on a regular basis to the underlying documentation, and thoroughly reviewed by a supervisory employee (other than the preparer), with any necessary adjustments recorded timely.

Generally Accepted Accounting Principles (GAAP) requires that the underlying accounting records support the balances, transactions and disclosures presented in the financial statements.

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

Cause

County management stated that with the implementation of the ERP system, there was a significant learning curve for new and enhanced countywide accounting and financial reporting processes, which required additional time for supervisors / management to analyze balances and transactions and prepare the year end closing entries. In addition, there was turnover in key financial reporting management personnel in the Comptroller's Office during FY 2017. This left less time for detailed supervisory / management reviews once the information was prepared.

Effect

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

Recommendation

To improve the County's year-end financial reporting close process which includes improving the quality and timeliness of preparing the year-end 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 completed in advance in order to alleviate the amount of work necessary after fiscal year end.

Management Response

Management agrees with the recommendations and will continue its strategic plan to implement process improvements that will ensure effective County wide accounting and business systems exist in conjunction with the ongoing implementation of Oracle EBS. During FY 2017, Oracle EBS went live with the following modules:

- Procurement
- Inventory
- Accounts Payable
- Projects
- Fixed Asset
- General Ledger
- Accounts Receivable
- Cash Management
- Hyperion financial reporting
- Hyperion budget

The Comptroller's Office continued its County-wide communication and follow-up was performed on a regular basis which resulted in the timely submission of requested financial information by most agency and fee offices. The year-end closing process should become most efficient with the full implementation of Oracle EBS which is scheduled to take place during FY 2018, 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 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 2017–002: Financial Accounting and Reporting - CCHHS

Condition and Context

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

Review of Account Analysis and Adjusted Trial Balance:

We identified multiple areas where supervisory review of year-end account analysis was not sufficiently detailed to identify errors in the underlying analysis that were identified during our audit procedures. Additionally, we identified other areas where there was inadequate review of the adjusted year-end trial balance by management to enable accurate posted journal entries.

We proposed seven audit adjustments as a result of the errors identified. Adjustments proposed as a result of inadequate review of account analysis included: decreasing Provident Hospital capitation revenue and accounts receivable by $8,759,000; increasing current-year property taxes receivable and decreasing prior-year property taxes receivable by $4,500,000; increasing current-year property taxes receivable and property tax revenue by approximately $700,000; decreasing accrued vacation payable and salaries and wages expense by $5,795,000; and decreasing accrued salaries, wages and other liabilities and salaries and wages expense by $3,512,000. Adjustments proposed as a result of inadequate review of the adjusted year-end trial balance included: increasing net patient service revenue and accounts receivable by $46,931,000 and increasing inventory and decreasing supplies expense by $3,688,000. Management passed on recording the property tax adjustments; all other proposed adjustments were recorded.

Additionally, there were two transactions during fiscal year 2017 that were relatively new for CCHHS that were not properly accounted for under accounting principles generally accepted in the United States of America (GAAP). The first transaction related to increased capital transactions associated with the construction of the new Central Campus Health Center (the "Center") that began in December 2017 and is expected to be completed in November 2018. In prior years, such transactions would have been accounted for at the County within governmental activities and recorded at CCHHS only after it was placed in service. In fiscal year 2017, CCHHS management began accounting for these transactions in their own financial statements (as a capital transfer and construction in progress). Certain items related to the Center that should have been capitalized as part of the Center project cost were expensed in error. We proposed an adjustment, which was recorded by management, to increase capital assets and decrease expenses by approximately $5,169,000. The second transaction was CountyCare's acquisition, effective November 1, 2017, of Family Health Network's Cook County members and contracts. Although management properly recorded the estimated cost of this acquisition as an intangible asset, management did not assign an estimated life to the asset or begin to amortize the asset as of the date of acquisition. We proposed an adjustment, which was passed by management, to record approximately $600,000 of amortization for the month of November 2017.

Reconciliation of Oracle Conversion Adjustments:

During fiscal year 2017, the County, including CCHHS, implemented a new Enterprise Resource Planning (ERP) system, Oracle. This new ERP enabled both the County and CCHHS to be on the same general ledger system for the first time. In connection with the ERP implementation, CCHHS was required to input beginning fiscal year 2017 account balances prior to the fiscal year 2016 audit being completed and adjustments proposed during the audit being recorded. In addition, certain consolidating entries were recorded on the County's trial balance and pushed down to CCHHS's trial balance. As a result, the December 1, 2016, beginning account balances in Oracle did not agree to the November 30, 2016, final audited balances per Lawson, CCHHS's former accounting system. CCHHS management performed analysis to adjust the beginning balances, but were unable to fully reconcile those balances. Management recorded a journal entry to adjust the approximately $15,400,000 unreconciled difference, decreasing accounts payable and increasing net position. Based on our analysis performed during the audit, we concluded that accounts payable was not understated by this full amount. We proposed an adjustment, which was deemed immaterial and passed by management, to increase accounts payable and operating expenses by $4,170,000.

Criteria
Under a good system of internal control, all significant accounts should be reconciled on a regular basis to the underlying documentation, and thoroughly reviewed by a supervisory employee (other than the preparer), with any necessary adjustments recorded timely.

GAAP requires that the underlying accounting records support the balances, transactions and disclosures presented in the financial statements.

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

Cause
CCHHS management stated that the implementation of the ERP system led to new processes for accounting and financial reporting, which required additional time to analyze balances and transactions and prepare the year-end closing entries. This left less time for detailed supervisory reviews once the information was prepared. CCHHS management stated that because of the timing of receipt from the County of the first consolidated November 30, 2017, trial balance, which was received on March 21, 2018, there was limited time available to reconcile and correct adjustments made as a result of the Oracle conversion.

Effect
As a result of the above misstatements, revenues were understated by approximately $38,877,000, expenses were overstated by approximately $13,388,000, and net position was understated by approximately $52,265,000 in the unaudited November 30, 2017, financial statements.

Recommendation
We recommend that management perform a thorough review of year-end account analysis to timely identify and correct errors in the analysis. Management should also ensure that required adjusting journal entries are properly posted to the general ledger. This review should include verification that the account balance indicated on the supporting analysis agrees to the account balance on the adjusted trial balance. We also recommend that management maintain a checklist supporting the year-end account analysis that identifies for each account the individual performing the underlying analysis, the individual performing the supervisory review and documentation evidencing when that review was completed, as well as evidence that adjustments posted to the general ledger as a result of the year-end analysis were reviewed and approved.

Management Response

We are in agreement that we need to make sure that the review process is adhered to and supervisory sign-off exists. To this end, we are reviewing all related policies and will change any that are not clear on this point. A checklist will be developed and completed monthly and forwarded to the CFO and maintained in his files.

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, 2018