# Cook County Health and Hospitals System of Illinois

Report to the Audit and Compliance Committee
May 31, 2018

RSM US LLP

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May 31, 2018

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

We are pleased to present this report related to our audit of the financial statements of Cook County Health and Hospitals System of Illinois (CCHHS) as of and for the year ended November 30, 2017. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for CCHHS's financial reporting process.

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

RSM US LLP

## 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 financial statement audit as well as observations arising from our audit that are significant and relevant to your responsibility to oversee the financial reporting process.

| Area | Comments |
|---|---|
| **Our 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 March 26, 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**<br>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.<br><br>**Adoption of, or Change in, Accounting Policies**<br>Management has the ultimate responsibility for the appropriateness of the accounting policies used by CCHHS. CCHHS did not adopt any significant new accounting policies, nor have there been any changes in existing significant accounting policies during the current period.<br><br>**Significant or Unusual Transactions**<br>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.<br><br>**Management's Judgments and Accounting Estimates**<br>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. |
| **Audit Adjustments** | Audit adjustments proposed by us and recorded by CCHHS are shown in the attached Summary of Recorded Audit Adjustments. |
| **Uncorrected Misstatements** | Uncorrected misstatements are summarized in the attached Summary of Uncorrected Misstatements. |
| **Disagreements With Management** | We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements. |

| Area | Comments |
|---|---|
| **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** | Following is a description of significant issues arising from the audit that were discussed with management:<br>• Oracle conversion adjustment<br>• Accounting for unearned Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) revenue |
| **Significant Difficulties Encountered in Performing the Audit** | We did not encounter any significant difficulties in dealing with management during the audit. |
| **Letter Communicating Material Weakness in Internal Control Over Financial Reporting** | We have separately communicated a material weakness in internal control over financial reporting identified during our audit of the financial statements, and this communication is attached as Exhibit A. |
| **Significant Written Communication Between Management and Our Firm** | A copy of the significant written communication between our firm and the management of CCHHS, the representation letter provided to us by management, is attached as Exhibit B. |

## Summary of Significant Accounting Estimates

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events, and certain assumptions about future events. You may wish to monitor throughout the year the process used to determine and record these accounting estimates. The following describes the significant accounting estimates reflected in CCHHS's November 30, 2017, financial statements.

| Estimate | Accounting Policy | Management's Estimation Process | Basis for Our Conclusions on Reasonableness of Estimate |
|---|---|---|---|
| **Allowance for Uncollectible Patient Accounts** | Accounts receivable are recorded at their estimated net realizable value. | The allowance for uncollectible patient accounts is based on management's estimate of the collectability of identified receivables, based on the payor classification, as well as the aging of patient accounts.<br><br>Management determines the allowance for uncollectible patient accounts using allowance percentages based on historical collection experience and management's judgment, applied to an aging of accounts by payor classification. Allowance percentages are developed based on actual collection experience and management's understanding of changes in reimbursement. | We tested underlying information supporting this allowance, including the year-end aging reports and collection experience.<br><br>We also performed a hindsight test of the November 30, 2016, allowance for uncollectible accounts using subsequent collection experience, which indicated that the November 30, 2016, allowance was reasonable.<br><br>Furthermore, we reviewed the subsequent cash collections of accounts receivable at November 30, 2017, through March 5, 2018, to assess the reasonableness of the November 30, 2017, valuation.<br><br>Based on the testing performed, we proposed an adjustment to increase net patient accounts receivable by approximately $47,000,000 to properly reflect management's supporting analysis of the accounts receivable valuation at November 30, 2017. |

| Estimate | Accounting Policy | Management's Estimation Process | Basis for Our Conclusions on Reasonableness of Estimate |
|---|---|---|---|
| **Third-Party Settlements Receivable and Payable** | Net patient service revenue is reported at estimated realizable amounts from patients, third-party payors, and others for services rendered. Retroactive adjustments under reimbursement agreements with third-party payors are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined. | The settlements due from/to third-party payors (primarily Medicare) are based on management's estimate of amounts due from/to Medicare and due to Blue Cross relating to cost report filings and the Blue Cross HMO and PPO agreements, as well as exposure to repayments associated with Recovery Audit Contractor (RAC) and other third-party payor audits.<br><br>Management calculates third-party settlements receivable and payable based on estimated, filed, and settled Medicare and Blue Cross cost reports. Management also relies on experience reporting data received from the Medicare fiscal intermediary and Blue Cross. The settlement accounts include provisions for audit adjustments and unforeseen issues that may arise from future audits. | With the assistance of an RSM reimbursement specialist, we tested management's third-party account roll-forward analysis and supporting schedules by performing analytical and substantive tests of these schedules and third-party account balances on a sample basis. In addition, we read correspondence received during the year from the Medicare fiscal intermediary. We also reviewed the Blue Cross managed care settlement and Uniform Payment Program (UPP) accounts.<br><br>Based on the testing performed, the third-party settlement receivable and payable appear reasonable. |

| Estimate | Accounting Policy | Management's Estimation Process | Basis for Our Conclusions on Reasonableness of Estimate |
|---|---|---|---|
| **Claims Payable – CountyCare** | CCHHS records an estimate of amounts payable to providers outside of CCHHS for services provided to CountyCare members. This estimate reflects the projected ultimate cost of services incurred but not paid, net of the expected stop-loss insurance recoveries. | Milliman, an independent actuarial firm, was engaged to assist management in estimating the CountyCare claims payable. The actuary used historical claims data, as well as subsequent claims paid in the months of December 2017 and January 2018, to estimate the liability as of November 30, 2017. | We obtained the report prepared by the independent actuary and performed analytical and substantive tests of the underlying data used by the actuary in its valuation. With the assistance of an RSM actuarial specialist, we assessed the reasonableness of actuarial assumptions and methods used.<br><br>Based on the testing performed, the claims payable – CountyCare liability appears reasonable. |
| **Reserve for Repayment to State of Illinois Under Demonstration Project** | In prior years, CCHHS provided an accrual for estimated amounts due to the State of Illinois should CCHHS receive reimbursement in excess of costs for the CountyCare program, as defined, during the period covered by the demonstration project. | In prior years, management estimated the reserve by computing an estimate of the Per Member Per Month (PMPM) amounts expended during the reporting period and comparing this estimate to the amount of PMPM reimbursement received. The excess of PMPM reimbursement received over PMPM cost was multiplied by the member months recognized for the period covered by the demonstration project to estimate the repayment obligation. | In conjunction with prior years' audits, we tested the schedules and underlying data used to compute the estimate.<br><br>We made inquiries of management regarding subsequent developments relating to the reserve.<br><br>Based on the testing performed, the reversal of the reserve as of November 30, 2017, appears reasonable. |

| Estimate | Accounting Policy | Management's Estimation Process | Basis for Our Conclusions on Reasonableness of Estimate |
|---|---|---|---|
| **Reserve for Repayment to State of Illinois Under Demonstration Project (Continued)** | | In fiscal year 2017, management determined that it considers payment of this liability to be remote. As of November 30, 2017, it had been more than three years since the end of the demonstration project period, with no communication regarding any issues from state and federal regulatory officials. Management believes that the waiver was completely scored in the prior federal budgets, with waiver expenditures within the cost neutral cap established. Based on this assessment, management determined that this reserve was no longer required, and reversed the reserve as of November 30, 2017, increasing fiscal year 2017 CountyCare capitation revenue by $83,000,000. | |

| Estimate | Accounting Policy | Management's Estimation Process | Basis for Our Conclusions on Reasonableness of Estimate |
|---|---|---|---|
| **Accrued Pension Liability** | CCHHS accounts for its portion of the obligations relating to the County's defined benefit pension plan in accordance with GASB Statement Nos. 68, 71, 73 and 82. The obligation recorded in CCHHS's fiscal year 2017 financial statements was measured as of December 31, 2016. The County discounts its pension obligation. The discount rate used was 4.64 percent as of December 31, 2016. | County management engaged Conduent, an independent actuarial firm, to assist management in estimating the net pension liability, deferred outflows of resources and pension expense.<br><br>Conduent uses various information and assumptions, including salary history, years of future service, and mortality to estimate the pension obligation. The amounts are allocated to CCHHS based on covered payroll during the measurement period. | We obtained the actuarial report prepared by Conduent, as well as a copy of the employee census data used in its valuation. We performed analytical and substantive tests of the covered payroll data and underlying census data.<br><br>With the assistance of an RSM actuarial specialist, we reviewed the methodologies and assumptions used by Conduent. Based on the testing performed, we concluded that the accrued pension liability is reasonable. |
| **Self-Insured Liabilities** | CCHHS records an allocation of the County's estimate of the probable loss for workers' compensation, medical malpractice and other self-insured claims. The accrued liability represents an estimate of the eventual loss on claims, including claims incurred but not yet reported (IBNR). | County management engaged Aon, an independent actuarial firm, to assist management in estimating the self-insured liabilities.<br><br>The County's risk management and legal departments provide details of open cases, reserve estimated, claims payment activity, and other information to the actuary. This data is used by the actuary to determine the probable liabilities based on historical trends and other loss factor data. | We obtained the actuary report directly from Aon. We tested certain source data provided to Aon to the County's books and records.<br><br>With the assistance of an RSM actuarial specialist, we reviewed the methods and assumptions used by Aon.<br><br>Based on the testing performed, we concluded that the self-insured liability estimates were reasonable. |

# Summary of Recorded Audit Adjustments

| | Increase (Decrease) | | | | |
|---|---|---|---|---|---|
| Description | Assets | Liabilities | Net Position | Revenue | Expenses |
| To adjust net patient service revenue and patient accounts receivable | $ 46,931,100 | $ - | $ - | $ 46,931,100 | $ - |
| To adjust Provident Hospital capitation revenue and receivable | (8,759,000) | - | - | (8,759,000) | - |
| To adjust accrued vacation and salaries and wages expense | - | (5,795,000) | - | - | (5,795,000) |
| To adjust capital assets and purchased services, rental and other expenses | 5,169,100 | - | - | - | (5,169,100) |
| To adjust inventory and supplies expense | 3,688,200 | - | - | - | (3,688,200) |
| To adjust accrued payroll and salaries and wages expense | - | (3,512,000) | - | - | (3,512,000) |
| | $ 47,029,400 | $ (9,307,000) | - | $ 38,172,100 | $ (18,164,300) |
| Effect on change in net position | | | 56,336,400 | | |
| Effect on ending net position | | | $ 56,336,400 | | |

## Summary of Uncorrected Misstatements

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

| | Increase (Decrease) | | | | |
|---|---|---|---|---|---|
| **Description** | **Assets** | **Liabilities** | **Net Position** | **Revenue** | **Expense** |
| Reversed opening net position misstatements | $ - | $ - | $ - | $ - | $ - |
| **Current-year uncorrected misstatements** | | | | | |
| To adjust property tax revenue and receivable | 705,000 | - | - | 705,000 | - |
| To properly state the property tax receivable related to the current and prior fiscal years: | | | | | |
| Property tax receivable - current year | 4,500,000 | - | - | - | - |
| Property tax receivable - prior year | (4,500,000) | - | - | - | - |
| To adjust BIPA unearned revenue | - | (1,515,000) | - | 1,515,000 | - |
| To record amortization of FHN intangible asset | (606,000) | - | - | - | 606,000 |
| To adjust accounts payable | - | 4,170,000 | - | - | 4,170,000 |
| | $ 99,000 | $ 2,655,000 | | $ 2,220,000 | $ 4,776,000 |
| Effect on change in net position | | | (2,556,000) | | |
| Effect on ending net position | | | $ (2,556,000) | | |

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

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May 31, 2018

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

In planning and performing our audit of the financial statements of Cook County Health and Hospitals System of Illinois (CCHHS) as of and for the year ended November 30, 2017, in accordance with auditing standards generally accepted in the United States of America (GAAP), we considered CCHHS's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCHHS's internal control. Accordingly, we do not express an opinion on the effectiveness of CCHHS'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. Therefore, material weaknesses may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A 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 CCHHS's internal control to be a material weakness:

**Finding 2017–001: Financial Accounting and Reporting**

<u>Condition and Context</u>
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.

CCHHS's management response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

RSM US LLP

## Exhibit B—Significant Written Communication Between Management and Our Firm

COOK COUNTY HEALTH & HOSPITALS SYSTEM
CCHHS

COOK COUNTY HEALTH & HOSPITALS SYSTEM
1900 West Polk Street, Chicago, Illinois 60612
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May 31, 2018

RSM US LLP
One South Wacker Drive, Suite 800
Chicago, IL 60606

This representation letter is provided in connection with your audit of the financial statements of Cook County Health and Hospitals System of Illinois (CCHHS), an enterprise fund of Cook County, Illinois, as of and for the years ended November 30, 2017 and 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, 2018:

**Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit arrangement letter dated March 26, 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. Related-party transactions including those with Cook County, Illinois (the "County"), the primary government having accountability for CCHHS; other organizations for which the nature and significance of their relationship with CCHHS are such that exclusion would cause CCHHS's financial statements to be misleading or incomplete; and interfund transactions, including interfund accounts and advances receivable and payable, sale and purchase transactions, interfund transfers, long-term loans, leasing arrangements, and guarantees, have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

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

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

8. The following have been properly recorded and/or disclosed in the financial statements:

a. Net positions and fund balance classifications.

b. All leases and material amounts of rental obligations under long-term leases.
c. All significant estimates and material concentrations known to management which are required to be disclosed.

d. Risk financing activities.

e. The effect, if known, on the financial statements of Governmental Accounting Standards Board (GASB) Statements No. 75, 81, 82, 83, 84, 85 and 87 which have been issued, but which we have not yet adopted.

f. Liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.

g. Pension obligations, post-retirement benefits other than pensions and union contract retroactive pay agreements attributable to employee services rendered through November 30, 2017.

h. Disclosures related to third-party payor agreements and settlements.

i. Disclosures related to professional liability insurance coverage.

j. Disclosures related to self-insured risks.

k. Amounts of patient charity care and costs of services rendered to the community for a reduced or no fee based upon community need or the inability to pay for the services.

l. The nature of and amounts related to the Illinois Medicaid Provider Assessment and Illinois Medicaid Interagency Agreement programs.

m. The nature of and amounts related to the CountyCare program.

n. The nature of and amounts related to the Provident Hospital access payments program.

9. Capital assets, including infrastructure assets, are properly capitalized, reported, and depreciated.

10. We agree with the findings of specialists in evaluating the County's pension liabilities and self-insured liabilities, and CCHHS's allocations of such liabilities, and we have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

11. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be 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. Relating to CountyCare claims payable, management believes that the claims payable liability is adequate to cover the claims incurred but not paid as of November 30, 2017. However, because of the many variables that can affect the amount of claims that are incurred and the timing of when those claims are reported, and because CountyCare is a relatively new program for which CCHHS has relatively limited claims experience, it is possible that actual claims incurred but not paid could be more or less than the estimated liability included in the financial statements.

14. 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 below are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. 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.

As of and for the year ended November 30, 2017

| | Increase (Decrease) | | | | |
|---|---|---|---|---|---|
| **Description** | **Assets** | **Liabilities** | **Net Position** | **Revenue** | **Expense** |
| Reversed opening net position misstatements | $ - | $ - | $ - | $ - | $ - |
| **Current-year uncorrected misstatements** | | | | | |
| To adjust property tax revenue and receivable | 705,000 | - | - | 705,000 | - |
| To properly state the property tax receivable related to the current and prior fiscal years: | | | | | |
| Property tax receivable - current year | 4,500,000 | - | - | - | - |
| Property tax receivable - prior year | (4,500,000) | - | - | - | - |
| To adjust BIPA unearned revenue | - | (1,515,000) | - | 1,515,000 | - |
| To record amortization of FHN intangible asset | (606,000) | - | - | - | 606,000 |
| To adjust accounts payable | - | 4,170,000 | - | - | 4,170,000 |
| | $ 99,000 | $ 2,655,000 | | $ 2,220,000 | $ 4,776,000 |
| Effect on change in net position | | | (2,556,000) | | |
| Effect on ending net position | | | $ (2,556,000) | | |

## 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;

25. Management of CCHHS believes CCHHS will continue as a going concern.

26. 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

27. Based on the receipt of additional information related to certain federal funds received by CCHHS the Interagency Transfer Agreement between the Board of Commissioners and the Department of Health and Family Services, management changed its method of estimating unearned Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 (BIPA) revenue during the year ended November 30, 2017, which results in a decrease in unearned BIPA revenue of approximately $59,000,000 as of November 30, 2017. We believe that the new method is preferable as it better aligns CCHHS's recognition of BIPA revenue with the Federal fiscal year to which the funds relate..

28. Included in the financial statements at November 30, 2016 was a liability for $83,000,000 related to the Medicaid expansion period. CCHHS management determined that this amount was no longer due and outstanding. The reserve was originally constructed based on uncertainty in claims processing on both CCHHS and the State of Illinois. CCHHS management now believes this reserve is no longer needed at November 30, 2017 and no repayment is necessary, and reversed the liability as of November 30, 2017.

29. CCHHS maintains a refundable deposit with CCHHS's third-party administrator, Valence, for claims payments related to the CountyCare program. Although we have the ability to request repayment of the deposit within one year based on the current agreement with Valence, it is our intent and expectation to maintain those funds on deposit through at least December 1, 2018, and long-term classification in the November 30, 2017 statement of net position is appropriate.

30. We are responsible for making the accounting estimates included in the financial statements. Those estimates reflect our judgment based on our knowledge and experience about past and current events and our assumptions about conditions we expect to exist and courses of action we expect to take. In that regard, adequate provisions have been made:

    a. To reduce receivables to their estimated net collectable amounts.

    b. For estimated adjustments to revenue, such as denied claims, changes to diagnosis-related group (DRG) and ambulatory payment classification assignments, or other estimated retroactive adjustments by third-party payors.

    c. To reduce obsolete, damaged, or excess inventories to their estimated net realizable values.

    d. For risk retention, including uninsured losses or loss retentions (deductibles) attributable to events occurring through November 30, 2017, and/or for expected retroactive insurance premium adjustments applicable to periods through November 30, 2017.

    e. For pension obligations and deferred compensation agreements attributable to employee services rendered through November 30, 2017.

f. For obligations related to third-party payor contracts, including risk sharing and contractual settlements.

g. For audit and other adjustments by intermediaries, third-party payors, or other regulatory agencies.

h. For estimates regarding revenue, accounts receivable, claims expense, claims liability and reserve for possible return of funds related to CountyCare program.

i. For medical malpractice obligations expected to be incurred with respect to services provided through November 30, 2017.

31. There are no:

a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.

b. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. In that regard, we specifically represent that we have not been designated as, or alleged to be, a "potentially responsible party" by the Federal Environmental Protection Agency or any equivalent state agencies in connection with any environmental contamination.

c. Violations or possible violations of laws or regulations, such as those related to the Medicare and Medicaid antifraud and abuse statutes, including but not limited to the Medicare and Medicaid AntiKickback Statute, Limitations on Certain Physician Referrals (the Stark law), and the False Claims Act, in any jurisdiction whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency other than those disclosed or accrued in the financial statements.

d. Communications, whether oral or written, from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, including those related to the Medicare and Medicaid antifraud and abuse statutes; deficiencies in financial reporting practices; or other matters that could have a material adverse effect on the financial statements, other than the March 22, 2018 report of the Cook County Office of Independent Inspector General relating to its review of CCHHS's bad debt expense. We have provided you with our April 9, 2018 response to that report.

e. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by U.S. GAAP.

f. Line of credit or similar arrangements.

g. Agreements to repurchase assets previously sold.

h. Security agreements in effect under the Uniform Commercial Code.

i. Liens or encumbrances on assets or revenues or any assets or revenues which were pledged as collateral for any liability or which were subordinated in any way.

j. Contractual obligations for construction and purchase of real property or equipment not included in the liabilities or encumbrances recorded on the books.

k. Liabilities which are subordinated in any way to any other actual or possible liabilities.

l. Environmental clean-up obligations.

m. Material losses to be sustained in the fulfillment of, or from the inability to fulfill, any service commitments.

n. Guarantees, whether written or oral, under which CCHHS is contingently liable.

o. Long-lived assets, including intangibles, which are impaired or to be disposed of.

p. Derivative financial instruments.

q. Special or extraordinary items.

r. Materially impaired capital assets.

32. Billings to third-party payors comply in all respects with applicable coding guidelines (for example, ICD-10 and CPT-4), laws and regulations, including those dealing with Medicare and Medicaid antifraud and abuse, and only reflect charges for goods and services that were medically necessary; properly approved by regulatory bodies (for example, the Food and Drug Administration), if required; and properly rendered.

33. Recorded valuation allowances are necessary, appropriate and properly supported.

34. With respect to cost reports:

a. We have filed (or will file) all required Medicare, Medicaid, and similar reports.

b. We are responsible for the accuracy and propriety of all cost reports filed or to be filed.

c. All costs reflected on such reports are appropriate, allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payors.

d. The employed reimbursement methodologies and principles are in accordance with applicable rules and regulations.

e. Adequate consideration has been given to, and appropriate provision made for, audit adjustments by intermediaries, third-party payors, or other regulatory agencies.

f. All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.

g. Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based upon historical experience or new or ambiguous regulations that may be subject to differing interpretations. Although management believes the entity is entitled to all amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.

35. We have complied with all aspects of contractual agreement and grants that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are subject to the requirements of the Single Audit Act because we have received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit. The audit, in connection with the Single Audit Act, is being performed for the County by another independent accounting firm.

36. We have reported to the County's risk management department all known asserted and unasserted claims and incidents. Adequate and reasonable provision has been made for losses related to asserted and unasserted malpractice, employee health, worker's compensation, and any other self-insured claims.

37. During the course of your audits, 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.

**Supplementary Information**

38. With respect to supplementary combining information presented in relation to the financial statements:

    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.

39. With respect to required supplementary information (Management's Discussion and Analysis, the Schedule of Funding Progress, the Schedule of CCHS's Proportionate Share of the Net Pension Liability, and the Schedule of County Contributions) presented as required by 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

40. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to CCHHS.

41. We are not aware of any instances that have occurred, or are likely to have occurred, of:

    a. 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.

    b. Noncompliance with provisions of contracts and grant agreements that have a material effect on the determination of financial statement amounts.

    c. Abuse that could be quantitatively or qualitatively material to the financial statements.

42. We have taken timely and appropriate steps to remedy fraud; noncompliance with provisions of laws, regulations, contracts or grant agreements; or abuse that has been reported.

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

44. We have identified for you previous audits, attestation engagements, performance audits, or other studies related to the objectives of the audit being undertaken and whether related recommendations have been implemented. We have provided you with our views on your reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.

45. We acknowledge our responsibilities as it relates to non-audit services performed by you. With respect to your assistance in preparing the financial statements and related footnotes, we assumed all management responsibilities; oversaw the services by designating Dorothy Loving, Executive Director of Finance, who possesses suitable skill, knowledge or experience; evaluated the adequacy and results of the services performed; and accept responsibility for the results of the services.

Cook County Health and Hospitals System

Dr. John Jay Shannon, Chief Executive Officer

Douglas Elwell, Deputy Chief Executive Officer, Finance and Strategy

Ekerete Akpan, Chief Financial Officer

Dorothy Loving, Executive Director of Finance