COOK COUNTY HEALTH

September 4, 2019

Mr. Patrick Blanchard, Inspector General
69 West Washington Street
Suite 1160
Chicago, Illinois 60602

Mr. Blanchard,

In accordance with the Code of Ordinances, Cook County, Illinois, ch.2, art. IV, sec 2-285 (e) (2018), Cook County Health ("CCH") submits our response to the report "CountyCare Health Care Expenses" (June 21, 2019, OIIG 18-0100) as outlined below. While Cook County Health respects the role of the Office of the Independent Inspector General ("OIIG") in detecting and preventing waste or mismanagement in the operations of Cook County government, we respectfully disagree with the report's conclusions.

While a detailed response to the OIIG recommendations and concerns follows, it is imperative to the reputation and integrity of the health system and the health plan that we briefly address several matters up front.

1. **CountyCare Financial Health:** There can be no question that CountyCare has been beneficial to the hundreds of thousands of members it has served since 2013, to the Cook County taxpayers, to the safety net healthcare community, and to the broader patient population that Cook County Health serves. **For the past three years, CountyCare has generated more revenues than expenses.** In addition to serving as a critical source of coverage for previously uninsured patients, without the reimbursements from CountyCare, several non-CCH hospitals and other providers may have closed and Cook County Health's historic mission to serve all county residents without regard to their ability to pay would have been seriously compromised.

2. **Mis-Interpretation of Health System Financials:** We believe that there is a misunderstanding about the financial reports of CCH generally and CountyCare in particular. As an enterprise fund of Cook County government, Cook County Health is required to use accrual accounting while Cook County government uses modified cash for budgeting and modified accrual accounting for financial reporting. We believe that this is at the core of the report's improper comparison of payables to receivables without considering cash and other current assets that are available to cover those payables. The report also reflects a misunderstanding of assets and liabilities, which led to the inaccurate conclusion that the health plan has $701M in "unpaid healthcare expenses" from 2018, but lacks the assets to pay for it; such a conclusion is incorrect.

3. **Transparency:** CCH and CountyCare report regularly to the Cook County Health Board of Directors and the Cook County Board of Commissioners. There are two regular public meetings where financial information is presented to the Cook County Health Board of Directors: the monthly board meeting and the monthly finance committee meeting. Additionally, financial reports are provided to the Cook County Board of Commissioners and are discussed at the Finance Committee meeting, which is a committee of the whole. All Cook County Health board documents can be found at https://cookcountyhealth.org/about/board-of-directors/ . It is a rare month when County Board Commissioners do not ask questions of CCH's finance team, about the finances of both the system as a whole and our health plan. Managed Care metrics and finances are also reviewed in the Quarterly Managed Care Committee and forwarded to the County Board.

4. **External Review:** CCH's finances are audited by a nationally recognized independent public accounting firm as part of the overall Cook County audit. None of the assertions in the OIIG report have been the subject of any concern from the external auditor since the plan started in 2013. Additionally, the health plan is required to follow state and federal rules and regulations.

The detailed response that follows is provided to fully reflect the financial health of the CountyCare program. This response is divided into three sections, the first addresses the OIIG's five recommendations made "to assist in improving financial and operational transparency and accountability related to CountyCare's unpaid healthcare expenses," the second to detail additional Cook County Health initiatives to increase clarity and reduce risk associated with CountyCare finances and operations, and the third to respond to the OIIG's "primary concerns related to the growing unpaid debt." Additionally, the Cook County Health Board of Directors retained Deloitte Financial Advisory Services LLP ("Deloitte FAS") to perform an independent assessment, which is attached to this response. Cook County Health believes that this response will restore confidence in a program that has become a pillar of support for vulnerable populations and the providers who serve them in Cook County.

Section I -- COOK COUNTY HEALTH'S RESPONSES TO THE OIIG'S FIVE RECOMMENDATIONS

At the conclusion of its report, the OIIG proposed five recommendations to address its perceived concerns. We respond to these recommendations as follows:

- ***OIIG Recommendation #1****: CountyCare's cash balance, capitation revenue due from the state, and outstanding Claims Payable should be clearly stated in comparison form in a report so that the CCH Board and the Cook County Board of Commissioners can timely monitor these financial conditions on a regular basis.*

  CCH Response: This information is currently provided as part of the Cook County Health audited financial statements, which are publicly available and provided to the Cook County Health Board and the Cook County Board of Commissioners. Furthermore, the CCH Board's Managed Care Committee is provided information that shows the percentage of claims that are paid within 30 days, the industry standard metric. There is also a wealth of other financial information shared with both the CCH Board and the Cook County Board, including monthly CCH income statements, financial analysis of expenditures, revenue cycle metrics, payor mix metrics, managed care metrics, and managed care market data. In addition to all of this data and to avoid misinterpretation in the future, Cook County Health intends to incorporate and highlight information into existing quarterly reports that will show estimated claims payable, capitation payments due from the State of Illinois ("State"), and Cook County Health resources/assets (cash and deposits) available, to be shared with its Board of Directors and the Cook County Board of Commissioners.

- ***OIIG Recommendation #2****: The CCH Board of Directors should mandate an in-depth analysis of the unpaid healthcare expenses and create a plan to reverse the established trend. CCH should also provide timely and accurate Claims Payable aging reports. These expenses are steadily growing and could become too voluminous to manage without an extraordinary contribution from another funding source in the future. Additionally, to the extent possible, future PMPM revenues should be matched with future healthcare expenses.*

  CCH Response: CCH disagrees with the characterization of the unpaid healthcare expenses in this recommendation, the assertion that Per Member Per Month (PMPM) revenues have not kept pace with healthcare expenses of plan members, as well as the OIIG report's premises that underlie the recommendation. There is simply no legitimate basis for the conclusion that CountyCare had $701 million in unpaid healthcare liabilities as of November 30, 2018 for which it could not pay. This $701 million figure includes $199 million arising from services rendered by Stroger Hospital to CountyCare members.

  Per Medicaid rules and guidelines, providers have up to 180 days from the date of service to submit a bill for reimbursement to CountyCare. Once CountyCare receives a claim, CountyCare determines whether the claim is billed appropriately, and if so, the claim is deemed payable and payment is issued to the provider. If the provider has not submitted its claim in accordance with required guidelines, then CountyCare denies the claim, and the provider has 60 days to appeal the claim or submit a corrected claim to CountyCare. Upon

receipt of an appeal or corrected claim, CountyCare re-evaluates whether the claim is appropriately billed and payable.

Separately and in addition, an actuarial firm conducts an annual review of claims *trends* and determines an *estimate* for claims and bills to be received in the *future* (Incurred But Not Reported[1] or "IBNR"). The chart below tracks unpaid bills, cash on hand and IBNR for fiscal years 2016 through 2018. Significantly, at the end of the 2018 fiscal year, the cash on hand was $370 million, greater than the actual amount of unpaid bills of $277 million. This also proved true for each of the prior years.

Year	Claims Payable per CCH Audited Financial Statements (Column 3+4)	Incurred But Not Reported as of 11/30/2018	Unpaid Claims as of Year-End 11/30	Cash on Hand per CCH Audited Financial Statements
2016	$212,778,304*	$91,925,633	$117,888,603	$355,869,039
2017	$372,936,988	$121,592,863	$251,344,126	$324,282,164
2018	$501,560,288	$224,603,006	$276,957,282	$370,685,572

*Of the $212,778,304 in the Claims Payable amount in the audited financial statements, $209,814,236 is attributed to CountyCare

The Cook County Health financial statements already capture CountyCare PMPM revenues and the related medical claims expenses in the CCH income statement, which is provided to the Cook County Health Board and Cook County Board of Commissioners each month. The Cook County Health audited financial statements are prepared using the accrual basis of accounting, which is required for an enterprise fund of government and provides the most meaningful view of financial results. Accrual accounting recognizes revenues and expenses that have been earned and incurred during the specific fiscal period in which they are earned or incurred, regardless of whether they are received or paid in a different period. The Cook County Budget, which is developed on a modified cash basis of accounting, includes revenues when received and most expenses when paid, a fundamentally different basis of accounting. It is challenging to interpret healthcare expenses and PMPM revenues within a fiscal year on the modified cash basis of accounting when providers have up to 180 days to bill a claim to the health plan per Medicaid rules and guidelines. Cook County Health will continue to partner with the Cook County Department of Budget and Management Services to evaluate whether any additional budget mechanism may be available that would allow for greater clarity of revenue and expenses despite these fundamentally distinct accounting requirements. Working with the Cook County Health Board and the County's CFO, CCH will explore clarifying existing disclosures as part of the audited financials that may be helpful in achieving a shared understanding of the finances of the health plan and health system specifically around IBNR calculations and Claims Payable.

[1] These are claims not yet received by CountyCare.

- ***OIIG Recommendation #3****: CCH should be required to provide more transparency in connection with related party transactions. There should be disclosures that highlight the key terms in the MOU between CCH and CountyCare such as the reimbursement rate and any adjustments. The reimbursement rate provides critical information for the CCH Board of Directors and County Board of Commissioners when making decisions related to budgetary and policy matters. These matters include understanding what factors are driving CCH losses and understanding the trend reflecting increased Claims Payable liabilities.*

  CCH Response: Since 2014, Cook County Health has continuously refined its financial reporting responsive to the emerging Governmental Accounting Standards, Generally Accepted Accounting Principles ("GAAP"), requests of the Cook County Health Board and the office of the Cook County Chief Financial Officer, to provide additional recurring information and added transparency. For example, the supplemental schedules included in the Cook County Health financial statements that appear to have been used by the OIIG are one of many examples of how Cook County Health has taken steps to provide detailed reporting to its various stakeholders.

  Cook County Health disagrees with the OIIG's characterization of the Memorandum of Understanding ("MOU") between CCH and CountyCare. Although there is no legal requirement for an MOU between CCH and CountyCare to document the reimbursement rate, CCH developed the MOU for the express purpose of providing transparency and clear documentation of the reimbursement terms for financial reporting and audit support purposes. As noted above, CCH is committed to fiscal transparency and we will continue to work with the Cook County Health Board and the County's CFO to explore providing additional information that may be helpful in achieving a shared understanding of the finances of the health plan and health system.

- ***OIIG Recommendation #4****: The CCH Financials should reflect the actual figures generated in each respective department. Managerial discretion should be eliminated when determining which operating units should encounter a gain or loss. This is separate and apart from the adjustments in reimbursement rates documented in the MOU between CCH and CountyCare. When senior management subsequently adjusts revenues and expenses, the CCH Board and Cook County Board of Commissioners are not provided an opportunity to develop a factually sound assessments of CCH's operations for planning purposes. While the consolidated numbers reflected in the CAFR remain a major focus, the financial data supporting the consolidated numbers tells an equally important story of the condition of the critical operating units within CCH and are relevant for the determination of policy.*

  CCH Response: Though there were no specific details or examples included in the OIIG report in connection with Recommendation #4, CCH currently does cost allocation across departments. The various major departments have been reported on separately in the monthly CCH Financial Statements since April, 2017. Furthermore, the Audited Financial Statements prepared by the outside accounting firm of the County has also shown major

department components in their reports routinely. These reports have all been available to the County Board shortly after presentation to the CCH Board.

As part of the budget process in a large integrated system such as CCH, accounts such as pharmaceuticals and information technology ("IT") expenses are estimated by departments and periodically adjusted once actual expenses are incurred by appropriately transferring expenses between budgetary units. This is done to improve the accuracy of actual expenses by budgetary unit/department and is a standard accounting practice. CCH is continuously reviewing allocation efforts and resources used to apportion costs accurately. For example, for IT costs, usage is monitored in the Electronic Medical Record to distribute the IT costs across different budget units. In sum, CCH cost accounting is driven by the actual costs incurred per department.

- ***OIIG Recommendation #5****: As outlined above, 15% of CountyCare Members obtain their healthcare from CCH and 85% seek care from external healthcare providers. This results in the vast majority of CountyCare's revenues from the State of Illinois going directly to external healthcare providers. We received statements that CountyCare could retain more patients if its primary care physicians made internal referrals and encouraged their patients to use services within CCH. Perhaps, CCH senior management could advise department heads to coordinate interdepartmental presentations with a goal of increasing internal referrals. To be sure, however, this is just one glaring possibility to assist in changing the current imbalance between internal and external providers of CountyCare members. We recognize that other more complex realities exist that also drive this imbalance. CCH should aggressively move towards addressing this issue at every level possible across all departments.*

  CCH Response: It is important to recognize that since the inception of CountyCare as a waiver program under the oversight of the Centers for Medicare and Medicaid Services (CMS), Cook County Health was required to develop a county-wide, geographically accessible provider network and is prohibited from requiring the utilization of CCH services by its health plan members. Subsequently, the Illinois Department of Healthcare and Family Services also has required a wide provider network in order to ensure adequate choice and access for health plan members throughout Cook County. Members choose the providers they wish to visit from within the network. Becoming the provider of choice for CountyCare members has been an explicitly stated strategy of Cook County Health since CountyCare was established. IMPACT 2020, CCH's FY2017-19 Strategic Plan, articulated an explicit strategy to "Capture more CountyCare members as referrals by increasing internal referrals for CCHHS specialty and inpatient care." Significant internal education has occurred to encourage providers to refer internally when possible, and multiple strategies have been deployed to improve services to CountyCare members and streamline referrals to CCH by network primary care providers. This continues to be a critical strategy and is identified in CCH's recently adopted Strategic Plan, IMPACT 2023, for ongoing focus.

The OIIG report did not acknowledge that Cook County Health is the single largest provider recipient of CountyCare revenue in the CountyCare network, earning $199 million from CountyCare revenue in 2018, as shown in the supplemental schedules in the audited financials.

Section II -- ADDITIONAL COOK COUNTY HEALTH INITIATIVES

In addition to the actions and practices summarized above, Cook County Health is also working on the following items that it believes will help provide greater clarity during the Cook County budget process, and further mitigate potential risk associated with operating a managed care organization.

- CountyCare Reimbursement to Cook County Health – Previously, the annual appropriation approved by the Cook County Board of Commissioners included only external healthcare expenses related to CountyCare and did not include CountyCare's reimbursement of Cook County Health as a provider of services to its members. While this funding was available to Cook County Health to utilize and offset its budgeted expenses through the annual appropriation bill, the proposed FY2020 budget anticipates a budgeted amount of internal reimbursement from CountyCare to Cook County Health. This would be reflected in the budget as an expense to CountyCare and as an offsetting revenue to Cook County Health as a provider of care. If approved, this change would provide additional clarity on how the internal reimbursement is structured, as well as provide a mechanism to account for the internal reimbursement each year.

- While not a State requirement, but given the growth, size and scale of CountyCare, Cook County Health, with the support of the Cook County Bureau of Finance, proposes establishing a cash reserve account as a prudent long-term strategy. In order for this approach to be effective, it is essential that these funds be restricted for the sole purpose and use of CCH and CountyCare.

Section III -- CCH'S RESPONSE TO THE OIIG'S FIVE "PRIMARY CONCERNS RELATED TO THE GROWING UNPAID DEBT"

In addition to the OIIG's five recommendations, the report identified five areas of concern related to its conclusion that the amount of CountyCare unpaid debt was increasing. Although there is some overlap between these issues and the OIIG's recommendations addressed above, CCH responds to each such concern in the interest of providing a full response to the OIIG's report. As a preliminary statement, it bears repeating that there is no "growing unpaid debt."

- ***OIIG Summarized Concern #1****: CountyCare's "due from state" tracks delayed payments or backlogs owed to CountyCare. The comparatively small amounts the State tends to owe CountyCare at year-end is dwarfed by the substantial amounts of Claims Payable outstanding at the end of each year. Essentially, the PMPM due from the State in 2018 ($14 million) can only pay 2% of the outstanding liabilities ($701 million) for the 2018 fiscal year-end. Even when excluding the amount internally owed to CCH ($199 million), CountyCare owes external healthcare creditors $502 million. Most of the unpaid debt is owed to vendors because 85% of CountyCare Members obtain their healthcare from external providers.*

  CCH Response: The comparison of "Due from State" to "Claims Payable" is made five times throughout the OIIG report, as is the point that the "PMPM due from the State can only pay 2% of the outstanding liabilities." This is an incomplete and misleading comparison from which to draw conclusions about CountyCare's ability to pay medical claims because it does not acknowledge the existing resources available to pay liabilities, such as cash on hand and other assets.[2] In addition, the amount represented in the OIIG report as due from the State as of November 30, 2018 was misleading because CCH had received payments totaling $269 million in state PMPM revenues earlier in November, as validated by the document the OIIG included in the appendix of the report ("Attachment D").

  The conclusion that at the end of fiscal year 2018 CountyCare had outstanding liabilities of $701 million, without the ability to pay, is simply not accurate. This $701 million is comprised of three parts:

  - $199 million of internal reimbursements for services provided at Cook County Health;
  - $224.6 million of IBNR for estimates of claims that had not yet been received as of November 30th; and
  - $277 million of claims that had been received but had not yet been paid as of November 30, 2018. As shown in the OIIG report, CountyCare received $269 million in revenue from the State in November 2018. The timing of these payments was just prior to the end of the fiscal year, making it unreasonable to be able to process

[2] By way of example, this comparison equates to evaluating an individual's ability to pay their household bills by comparing how much the person is owed by their employer to how much they have in bills, while not accounting for the amount of money in the individual's bank account. Further, these amounts will fluctuate significantly depending on timing - an individual who has just received their paycheck will have very little owed to them by their employer, will have more funds in their bank account, but may not pay their bills until the following day.

bills prior to the end of November. By not accounting for the cash on hand and referencing only "Due from State" and "Claims Payable," the OIIG report made a flawed and incomplete comparison, which led to a flawed conclusion.

A more complete comparison would show the following, which identifies the actual Claims Payable figure after incorporating the accounting entry to reflect CountyCare's reimbursement to Cook County Health, as well as identified reserve amounts, unpaid bills, revenue due from the State, cash on hand, and other assets available.

Year	Claims Payable per CCH Audited Financial Statements (Column 3+4)	Incurred But Not Reported as of 11/30/2018	Unpaid Claims as of Year-End 11/30	Cash on Hand per CCH Audited Financial Statements
2016	$212,778,304*	$91,925,633	$117,888,603	$355,869,039
2017	$372,936,988	$121,592,863	$251,344,126	$324,282,164
2018	$501,560,288	$224,603,006	$276,957,282	$370,685,572

*Of the $212,778,304 in the Claims Payable amount in the audited financial statements, $209,814,236 is attributed to CountyCare

The growth in year-end liabilities ($372.9 million to $501.6 million) from 2017 to 2018 is driven by an increase in IBNR due to the large increase in CountyCare membership from 2017 to 2018, and not due to an increase in claims received that are not being paid, as the OIIG report suggests. A more complete comparison of assets available to pay unpaid claims at year end would include both cash on hand and additional revenue due from the State.

Year	Unpaid Claims as of Year End	Cash on Hand	Additional Revenue Due from State
2016	$117,888,603	$355,869,039	$45,786,270
2017	$251,344,126	$324,282,164	$40,081,223
2018	$276,957,282	$370,685,572	$13,805,400

In fact, as demonstrated in the next table showing the unpaid claims as a percentage of premium and the number of months of expenses outstanding, CountyCare's 2018 performance was significantly better than 2017. This is also substantiated by the average turnaround time of CountyCare to pay a claim, which decreased from 2017 to 2018, at 56 days to 38 days, respectively.

Year	Unpaid Claims as of Year End	Total Premium Revenue	Unpaid Claims as a % of Premium	Months of Claims Outstanding*	Average Monthly Membership
2016	$117,888,603	$924,829,566	13%	1.6	156,102
2017	$251,344,126	$836,537,764	30%	3.8	154,450
2018	$276,957,282	$1,822,414,772	15%	1.8	333,714

*Months of total expenses outstanding

- ***OIIG Summarized Concern #2****: The established trend demonstrates that CountyCare does not generate enough revenue to pay all the outstanding healthcare expenses each fiscal year-end. CCH has developed a practice of using subsequent period budgetary funds to pay prior period bills. In effect, CountyCare is forced to pay substantial prior period and new period healthcare expenses during each fiscal period. Consequently, CountyCare's unpaid healthcare expenses are steadily growing and could become too large to pay without an extraordinary contribution from another funding source in the future.*

  CCH Response: For the past three years**, CountyCare has generated more revenues than expenses. See table below.** Cook County Health disagrees with the underlying premise of the analysis used in the OIIG report. It is common for health plans to still have liabilities at year end, as there is always a significant number of claims being processed or that providers have not yet reported to the health plan. In a cash-based budget such as the County's budget, the expenses are budgeted when the actual payment is anticipated to occur, rather than when claims are generated. It is typical to budget claims expenses based on monthly payments trends, rather than when the claim is generated. As noted in the OIIG report, a GAAP basis financial statement reports revenues when they are earned and liabilities when they are incurred. Reviewing the GAAP basis income statement is the best way to evaluate if an entity is earning sufficient revenue to cover all of its expenses. As documented in the OIIG report, CountyCare's revenue exceeded liabilities by $3.5 million in FY2018, based on the audited financial statements.

Year	Revenue	Expense	Gain/(Loss)
2016	$924,829,566	$911,620,486	$13,209,080
2017	$836,537,764	$791,796,674	$44,741,090
2018	$1,822,414,772	$1,818,912,621	$3,502,151

Source: Cook County Health Audited Financial Statements

The OIIG report then appears to shift from accrual accounting to the County Budget (modified cash basis), in order to assert that due to insufficient revenue to cover expenses, CountyCare has a growing amount of unpaid healthcare expenses that are paid the following budget period. As the table above demonstrates, CountyCare's revenues exceeded expenses on a GAAP basis. It is critical not to mix the two accounting methodologies when doing comparative analysis to avoid misleading results.

A review of the modified cash basis of accounting used in the County Budget also shows CountyCare revenues exceeded expenses, as outlined in the table below. On this basis, CountyCare has had revenue in excess of expenses by $200 million per year for patient care for the past five years and has provided more than $1.1 billion to Cook County Health from its inception. This generation of cash by CountyCare has reimbursed the system for care it provided CountyCare members, and assisted in offsetting fixed costs for CCH's provision of care to the uninsured, as well as reductions to CCH's tax allocation over the past 5 years.

Year	Premium Revenue Received	Claims Expense Paid (Excludes CCH)	Net Cash
2014	$636,539,740	$489,401,621	$147,138,119
2015	$859,295,613	$568,550,947	$290,744,666
2016	$868,162,903	$658,915,079	$209,247,824
2017	$816,435,746	$569,644,886	$246,790,860
2018	$1,817,910,849	$1,583,880,034	$234,030,815
Total	**$4,998,344,851**	**$3,870,392,567**	**$1,127,952,284**

Source: Cook County Bureau of Finance Preliminary Unaudited Revenues and Expense Reports

Cook County Health agrees with the OIIG that significant amounts of prior period claims are paid from current period revenue. Given the modified cash basis of accounting utilized for the County budget process, claims received in a subsequent budget period for prior periods (IBNR), which are reflected as liabilities on the Cook County Health financial statements, would be expected to be paid from subsequent budgetary periods.

Cash flow and the timing of bill payment is managed centrally for Cook County, which incorporates all revenues and all expenses from all departments and units of Cook County government, including Cook County Health (which includes CountyCare) and all other General Fund departments. An analysis of bills outstanding at any given point in time for a single program, including at the end of the fiscal year, could be influenced by a number of factors, and is not an appropriate indicator to use in determining whether an individual program generates enough revenue to cover expenses. The timing of when the expenses are paid is impacted by overall cash flow management for Cook County government. The historic unpredictability of the timing of State payments of various types has placed significant additional stress on cash flow management for the County. CountyCare received $269 million of State payments in November 2018 shortly before the end of the County fiscal year as referenced in OIIG Attachment D. Throughout the course of FY2018, the State was generally behind on its payments by at least two months, or over $200 million, prior to catch-up payments right before the end of November. As a result, it would be expected that CountyCare would have a corresponding amount of unpaid bills as of November 30, 2018.

In order to evaluate whether a program is generating sufficient revenue to cover expenses, another analysis is to look at a program's cash received and expenses paid (i.e., cash basis of accounting), rather than its receivables and payables at any given point in time. As demonstrated in the tables above, regardless of which method of accounting is used, CountyCare revenues have exceeded expenses.

- ***OIIG Summarized Concern #3****: CCH management fails to disclose to the CCH Board and Cook County Board of Commissioners important terms associated with related-party transactions that result in significant financial impacts between CCH and CountyCare. For example, there is a Memorandum of Understanding (MOU) between CCH and CountyCare with key provisions that shift losses between the two related entities. These methods and associated*

outcomes set forth in CCH Financials are not fully disclosed and explained to the CCH Board and Cook County Board of Commissioners.

- ***OIIG Summarized Concern #4**: In 2018, CCH senior officials amended the MOU between CCH and CountyCare to retroactively change reimbursement rates for 2017 due to a state-imposed revenue reduction. This retroactive change had a significant negative effect on Stroger Hospital and presented CountyCare as more profitable than it would have been without the change in reimbursement rates from CountyCare to CCH. These events were not fully and clearly disclosed to the CCH Board and Cook County Board of Commissioners.*

  CCH Response to Summarized Concerns #3 and #4: The Cook County Health Board of Directors and the Cook County Board of Commissioners receive monthly reports relative to the finances of both the health system and the health plan. These reports are also discussed at several meetings every month and posted to the Cook County Health website. As noted above, Cook County Health created the MOU to provide formal documentation of the reimbursement from CountyCare to Cook County Health. The MOU has typically been updated after the end of the year for purposes of documenting the applicable reimbursement rate. The reimbursement rate, however, is established well in advance of the end of the fiscal year and is not changed after the close of the fiscal year (as the OIIG report asserts), nor has Cook County Health changed the reimbursement rate after the close of the fiscal year.

  In 2017, the State notified CountyCare that it was reducing its PMPM and would require the system to repay what turned out to be approximately $84.9 million ("The Clawback"). Accordingly, CCH started the year at a reimbursement rate of 70% of charges for services provided by CCH to CountyCare members, but due to the Clawback, we determined CCH would receive reimbursement rate of 26% of charges, with that change retroactive to the beginning of the fiscal year.[3] Beginning with the July 2017 CountyCare financials presented to the CCH Finance Committee, the reports show the reimbursement rate of 26% of charges of CountyCare to CCH, as well as the significant variance versus the budget, which reflects the impact of the internal reimbursement rate change, and the revenues earned by CCH remained at that level on each monthly financial statement presented to the CCH Board and Board of Commissioners and publicly posted through the end of the 2017 fiscal year. No changes were made to this established rate or calculation methodology after the end of the fiscal year in order to change the presentation of gains or losses between units within the CCH financial statements. On September 15, 2017, CountyCare discussed with the CCH Board, in a regularly scheduled and posted public meeting, the retroactive State reduction to CountyCare revenue. Below is the attached link which shows the board meeting minutes (publicly available/posted on CCH website) https://cookcountyhealth.org/wp-content/uploads/09-15-17-Finance-Agenda-2.pdf . The only thing that was "changed" after the end of the fiscal year was amending the MOU to

[3] The 26% rate is in keeping with the reimbursement rates for other providers and typical of Medicaid rates in general.

reflect this earlier reduction in the reimbursement percentage, as per our historical practice.

As another example, the reimbursement rate for FY2018 was established at 70% of charges and remained at that level throughout all of 2018; however, the MOU documentation was not updated to reflect that rate until after the close of the 2018 fiscal year. In addition, it is important context that the historical reimbursement rates set between CountyCare and CCH have been at above-market reimbursement rates. So, while the rate was reduced mid-year in FY2017, this reimbursement rate was still reasonable in comparison to market rates at which other hospitals are reimbursed under Medicaid. Continuing to provide above-market reimbursement to Cook County Health in light of such a significant revenue change in 2017 would have misrepresented the financial health of CountyCare.

- ***OIIG Summarized Concern #5****: Despite the existence of the MOU, CCH routinely changes revenue and expense figures between CCH's operating units (e.g., Stroger, CountyCare, etc.) to reach desired financial goals for CountyCare and Stroger Hospital in CCH's monthly and annual financial reports. As a result, these practices make it difficult for the CCH Board and Cook County Board of Commissioners to have a sound baseline to evaluate the performance of the individual operating units that make-up CCH.*

  CCH Response: CCH disagrees with the OIIG statement and sees no evidence or examples in the OIIG report that "CCH routinely changes revenue and expense figures between CCH's operating units (e.g., Stroger, CountyCare, etc.) *to reach desired financial goals*" between operating units in CCH's monthly and annual financial reports. In order to follow best practices in allocating expense to appropriate departments, expense may be reallocated from time to time. These allocations are intended to reflect with greater clarity the costs of operating the various departments.

  It is important to explain the context and process by which financial reports come together. Guided by CCH Board requests, CCH monthly financial reports are a combination of financial statements, key operational data, key revenue cycle, and other financial metrics. The financial reports are primarily generated in the financial reporting function but are combined and made more meaningful with supporting operational data. This process of "monthly closes" by definition and industry practice, starts from sub-ledger closings and roll-up into the general ledger and may involve entries from multiple sources including the Inventory, Revenue Cycle/Billing Systems, County/Central office payroll entries, etc. This process involves multiple versions and reviews by progressively higher levels of finance leadership and could result in reconciliations with multiple data sources, clarifications, changes or refinements until final "unaudited financial statements" are presented to CCH board at the regular meetings. This is standard industry practice.

In conclusion, CountyCare generates sufficient revenues to maintain its operations and CCH has been open and transparent in reporting the financial status of the health plan. The conclusion in the OIIG report that CountyCare's unpaid debts at the end of fiscal 2018 were in excess of $701 million without adequate assets to pay them is incorrect and failed to include financial data normally considered in determining the financial health of an entity.

Further, although containing findings of important public interest, the OIIG report was publically distributed before providing CCH and CountyCare an opportunity to review and respond accordingly. The OIIG conclusions questioned the financial health of CCH and the credibility of CountyCare, Cook County Health and its management and Board. With this response and attached independent assessment by Deloitte FAS, we hope that the record is corrected, that the ongoing fiscal health of CountyCare and the transparency of CCH is acknowledged, and that any reputational harm incurred has been rectified.

Sincerely,

John Jay Shannon, MD
Chief Executive Officer, Cook County Health

Attachment: Deloitte FAS Independent Report

Via Electronic Mail Delivery

cc:
The Honorable Toni Preckwinkle, President, Cook County Board
The Honorable Members of the Cook County Board of Commissioners
Mr. M. Hill Hammock, Chairman, Board of Directors, Cook County Health
Board of Directors, Cook County Health
Ms. Lanetta Haynes Turner, Chief of Staff, Office of the President, Cook County Government
Mr. James Kiamos, Chief Executive Officer of Managed Care, Cook County Health
Ms. Laura Lechowicz Felicione, Special Counsel to the President, Cook County Government
Mr. Ammar Rizki, Cook County Chief Financial Officer, Cook County Government
Ms. Deborah J. Fortier, Associate General Counsel, Cook County Health
Mr. Ekerete Akpan, Chief Financial Officer, Cook County Health