

**REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE OF THE  
BOARD OF DIRECTORS OF THE  
COOK COUNTY HEALTH AND HOSPITALS SYSTEM**

**AUGUST 13, 2008**

**ATTENDANCE**

Present: Chairman Luis Muñoz, MD, MPH and Directors Benn Greenspan, PhD, MPH, FACHE and Heather E. O'Donnell, JD, LLM (3)

Board Chairman Warren L. Batts (Ex-Officio)

Gerald Bauman, CPA (Non-Director Member)

Also Present: Director Jerry Butler; Pitt Calkin – Interim Chief Financial Officer, Cook County Bureau of Health Services; Patrick T. Driscoll, Jr. – Deputy State's Attorney, Chief, Civil Actions Bureau, Office of the State's Attorney; Laura Burman – Cook County Auditor; Laura Lechowicz-Felicione – Special Counsel to President Todd H. Stroger; Tracy Guidry – Senior Manager, Deloitte & Touche; Patrick J. Hagan – Lead Client Partner, Deloitte & Touche; John Morales – Cook County Comptroller and Acting Interim Chief Financial Officer of Stroger Hospital of Cook County; Elizabeth Reidy - Deputy Chief, Civil Actions Bureau, Office of the State's Attorney; Deborah Santana – Office of the Secretary to the Board

Ladies and Gentlemen:

Your Audit Committee of the Board of Directors of the Cook County Health and Hospitals System met pursuant to notice on Wednesday, August 13, 2008 at the hour of 8:00 A.M. at 1900 West Polk Street, in the Second Floor Conference Room, Chicago, Illinois.

Your Committee has considered the following items and upon adoption of this report, the recommendations follow.

Roll Call

Deborah Santana, of the Office of the Secretary to the Board, called the roll of members and it was determined that a quorum was present.

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Presentation of Gerald Bauman, CPA

Appointment as a Non-Voting Member to the Audit Committee.

Chairman Muñoz introduced Mr. Gerald Bauman, CPA, and welcomed him as a new member of the Audit Committee. Chairman Muñoz stated that Mr. Bauman was the financial expert on former Cook County Board President Bobbie Steele's Health and Hospitals transition team.

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Presentation by Deloitte & Touche

Update and status report on the 2007 Audit of the County of Cook.

Chairman Muñoz introduced Patrick J. Hagan, Lead Client Partner of Deloitte & Touche. Mr. Hagan introduced Tracy Guidry, Senior Manager on the County portion of the audit.

Mr. Hagan delivered a status overview of the audit process. The audit is proceeding as discussed at the last Audit Committee meeting of July 17, 2008. In terms of progress, there are draft financial statements that have been prepared by the client and draft recommendations on internal control matters that have been prepared by Deloitte & Touche. These have been discussed preliminarily with the client. Under Ms. Guidry's guidance and leadership, there is the audit of the County-wide areas, such as JD Edwards and the payroll system, upon which the Health System is dependent. Additionally, the single audit-testing of the federal funds is progressing as well. These functions are progressing and are on schedule for the expected report issuance date of August 31, 2008. Deloitte & Touche will be prepared to discuss how to accelerate the process for next year when the audit is completed.

Board Chairman Batts inquired whether, as part of the audit report, Deloitte and Touche will discuss the strengths and weaknesses of the financial control system.

Mr. Hagan replied that this is a required part of the auditor communications, so part of that will be in the management letter of internal controls. Additionally, auditors are required to report material weaknesses, significant deficiencies and other matters; the auditors will be available for any questions regarding the control issues identified. Additional training and educational materials can be provided.

Director O'Donnell inquired whether the audit results include specific remarks if there have been concerns about the lack of an internal auditing function.

Mr. Hagan replied in the affirmative, and stated that last year's audit indicated as such. The process for doing that is the auditor's management letter of recommendations. Deloitte & Touche will prepare a summary of recommendations in order to improve internal controls or operational efficiencies.

Director O'Donnell inquired whether it is ever impossible to do an audit because of a lack of internal controls.

Mr. Hagan replied that an internal audit function is not required but he considers it to be a good support of the internal control system.

Director Greenspan inquired whether they should expect to see comments and suggestions on the business integrity process (corporate compliance, the lack of a compliance officer in existing systems) in Deloitte & Touche's letter concerning management practice.

Mr. Hagan replied that although there was no comment on this last year, if it concerns a potential deficiency or an opportunity for improvement, he will comment on it.

Chairman Muñoz inquired when the report will be available.

Mr. Hagan replied he hoped to issue a written report by August 31, 2008.

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Presentation by Pitt Calkin, Interim Chief Financial Officer

Discussion of the internal audit functions and process.

Chairman Muñoz introduced Pitt Calkin, Interim Chief Financial Officer of the Bureau of Health Services.

Mr. Calkin provided the members with information on internal audit functions and processes. (Attachment #1)

Chairman Muñoz stated that internal auditing is an important function and one that should be developed, staffed internally, and have oversight of the System, particularly under best practices identified in the Sarbanes-Oxley Act.

Mr. Bauman inquired as to the size of the internal audit staff.

Mr. Calkin replied that there is no independent staffing for this function; the System currently uses County Auditor staff.

Director O'Donnell asked how the System's needs for internal audit staff would be determined and who would evaluate these needs. She also asked whether there was a need for internal auditors within each facility.

Mr. Calkin replied that David Small, Interim Chief Executive Officer of the Bureau of Health Services, had tasked him with setting up an audit group at the System level which would be responsible for all seven business units. In proceeding with this task, he would look for input from the Audit Committee and the Board as to the staff size. Currently, he is gathering information from associations around the country. He envisions the staff to include certified public accountants, as well as clinical and operational staff.

Director O'Donnell inquired whether the positions are currently budgeted.

Mr. Calkin replied in the negative; staffing for this function is expected to be included as part of the 2009 budget request.

Director O'Donnell inquired whether this will be an additional expense for 2009.

Mr. Calkin replied that it was most likely, but added that some open positions exist that can be shifted for this purpose.

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Development of Internal Audit Function

The Audit Committee is to address the development of an internal audit function. This development shall also address the resources and staffing required to develop and support the Audit process.

Chairman Muñoz solicited the opinions of the members with regard to the development of the internal audit function. He asked for their thoughts on the possibility of engaging an outside consulting firm to develop an internal audit function.

Mr. Calkin replied that he would first like to discuss the subject with Laura Burman, the Cook County Auditor.

Chairman Muñoz asked Ms. Burman to speak on the issue.

Ms. Burman stated that her office could be utilized for internal audit functions. Her office has the structure in place and has requested ten additional staff for their budget for next year, in the event that the System Board chooses to utilize their services. She stated that the System may wish to start a risk assessment or a review of their needs; an audit plan could be developed based upon those needs. Reporting would be directed to the System Board and the County Board.

Director Greenspan inquired what the qualifications are for the director of an internal auditing department.

Ms. Burman replied that the individual should be a certified public accountant or certified internal auditor. Requirements are based on state statute; additionally, the County has passed an ordinance stating functions relating to the Auditor's office.

Mr. Bauman suggested that he and Ms. Burman meet to discuss the scope and staffing needs; then a statement could be drafted setting forth the process to set up the internal audit function.

Ms. Burman stated that she would be happy to meet with Mr. Bauman.

Board Chairman Batts stated that in his experience, when an internal auditing system is in place, the efficiencies pay for the system.

Chairman Muñoz stated that he believed the two goals of the Audit Committee are to be as accurate as it can be in its accounting and as truthful as it can be to the community with regard to events and matters that effect the organization.

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Presentation by Cook County Comptroller John Morales

Cook County Government Financial Audit of 2007, Corporate Audit Status

Chairman Muñoz introduced John Morales, Cook County Comptroller and Acting Interim Chief Financial Officer of Stroger Hospital of Cook County.

**REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE OF THE  
BOARD OF DIRECTORS OF THE COOK COUNTY HEALTH AND HOSPITALS SYSTEM  
AUGUST 13, 2008  
PAGE 5**

Mr. Morales stated that the Health System audit is moving along as originally planned. Right now release of the Health System audit is on hold because it is rolled up into the overall combined annual financial report. He added that although there are some open items, he did not foresee any delays and believed that it is on track to meet the August 31, 2008 date.

Chairman Muñoz asked Mr. Morales who receives and retains control over this document. Additionally, he asked for information regarding the timeline.

Mr. Morales replied that Mr. Hagan will present the final report to the Chief Financial Officer, Donna Dunnings. The report is then submitted to the Cook County Board, for referral to their Audit Committee and is subsequently received and filed.

Chairman Muñoz inquired how long this would take.

Mr. Morales stated that he could not provide a specific date, but that everything is happening in an orderly matter.

Chairman Muñoz inquired how long it took last year.

Mr. Hagan replied that last year they were two months later, and that this year's process has been accelerated.

Patrick Driscoll, Deputy State's Attorney and Chief of the Civil Actions Bureau of the Office of the State's Attorney, stated that he would have to check with County Board Audit and Finance Chairman John Daley, because it would be released by that Board first, and then once it was released it could be turned over, almost simultaneously, to the System Board.

Chairman Muñoz inquired the exact date that the document came out last year.

Mr. Hagan replied that the date was October 29, 2007; it was publicly distributed less than one month after that.

Chairman Muñoz stated that one month of delay would present enormous problems to the System Board. He believed that the process should be expedited.

Board Chairman Batts inquired as to what legally prevents the report from being released, pending adjustment.

Mr. Driscoll stated that there is no legal reason a report cannot be issued, the issue may involve generally accepted auditing practices.

Mr. Hagan agreed to share a preliminary draft with the Committee.

Chairman Muñoz requested that Mr. Morales set up a meeting with Donna Dunnings regarding such a draft.

Director Greenspan inquired whether they might coordinate with Ms. Dunnings and Chairman Daley to receive the System's portion of the audit, with the proviso that the County's Audit Committee does not release and file the full audit until the System Board has finished with their review of their portion.

Mr. Hagan replied that he would discuss scheduling the Cook County Audit Committee for a date between September 4 and September 18 with Ms. Dunning and Mr. Morales.

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Corporate Compliance

Status of the search for a Corporate Compliance Officer  
Development of Corporate Compliance Manual and Forms

Mr. Calkin distributed information regarding corporate compliance efforts at the System. (Attachment #2)

Mr. Calkin stated that Delores Campbell functions as the compliance officer at the System level. Additionally, there are compliance officers at each facility, although some are temporary. Johnnie Brown (Chief Operating Officer at Stroger Hospital) is the temporary compliance officer at Stroger Hospital and Sidney Thomas (Chief Operating Officer at Provident Hospital) is the temporary compliance officer at Provident Hospital. There is a need for finding permanent compliance officers.

Mr. Calkin provided an overview of the reporting process. He stated that there is a hotline that employees, physicians and staff can call regarding compliance issues; names are not reported. Mr. Small is in the process of recruiting a System-level, full-time compliance officer; many of the former six compliance officers were laid off, so this is an area that has staffing needs.

Chairman Muñoz requested that Mr. Calkin report back at the next meeting of the Audit Committee regarding past budgets for the area of compliance.

Mr. Calkin agreed to do this.

Director O'Donnell inquired as to what the process is once someone calls the hotline.

Mr. Calkin explained this process. First, the corporate compliance officer fields the call. He or she will investigate the issue, and will communicate back to the organization that is affected by the report. If an action plan is needed as a result of the investigation, it is developed and promulgated.

Chairman Muñoz stated that Mr. Small was unable to attend this meeting to update them as to the recruiting efforts for the Bureau-wide Corporate Compliance Officer. However, he stated for the record that the Committee does want to be involved in the process of interviewing for this position.

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Closed Session

- A) 2007 Audit Issues and Discussions-CEO-CFOs and Deloitte & Touche
- B) Provident Hospital Purchasing and Management Issues

**REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE OF THE  
BOARD OF DIRECTORS OF THE COOK COUNTY HEALTH AND HOSPITALS SYSTEM  
AUGUST 13, 2008  
PAGE 7**

Director Greenspan, seconded by Director O'Donnell, moved to recess the regular session and convene into closed session to discuss personnel matters, pursuant to the Illinois Open Meetings Act, 5 ILCS 120/2(c)(1), et seq., which permits closed meetings for consideration of "the appointment, employment, compensation, discipline, performance, or dismissal of specific employees of the public body, including hearing testimony on a complaint lodged against an employee of the public body or against legal counsel for the public body to determine its validity". **THE MOTION CARRIED UNANIMOUSLY.**

Director O'Donnell, seconded by Director Greenspan, moved to adjourn the closed session and convene into regular session. **THE MOTION CARRIED UNANIMOUSLY.**

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Public Comments

Chairman Muñoz asked the Secretary to call upon the registered public speakers.

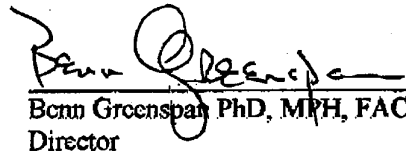
The Secretary informed the Chair that there were none.

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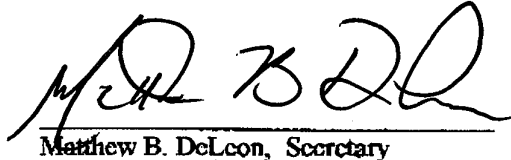
Adjournment

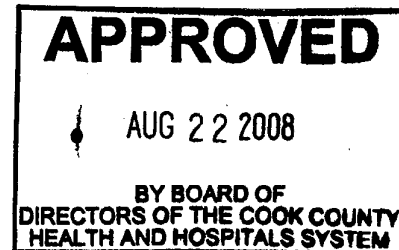
Director Greenspan, seconded by Director O'Donnell, moved to adjourn. **THE MOTION CARRIED UNANIMOUSLY AND THE MEETING WAS ADJOURNED.**

Respectfully submitted,  
Audit and Compliance Committee of the  
Board of Directors of the  
Cook County Health  
and Hospitals System

  
Ben Greenspan PhD, MPH, FACHE,  
Director

Attest:

  
Matthew B. DeLeon, Secretary



**ATTACHMENT #1**

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## Why should an organization have internal auditing?

A cornerstone of strong governance, internal auditing bridges the gap between management and the board, assesses the ethical climate and the effectiveness and efficiency of operations, and serves as an organization's safety net for compliance with rules, regulations, and overall best business practices.

Management is responsible for establishing and maintaining a system of internal controls within an organization. Internal controls are those structures, activities, processes, and systems which help management effectively mitigate the risks to an organization's achievement of objectives. Management is charged with this responsibility on behalf of the organization's stakeholders and is held accountable for this responsibility by an oversight body (e.g. board of directors, audit committee, elected representatives).

A dedicated, independent and effective internal audit activity assists both management and the oversight body (e.g. the board, audit committee) in fulfilling their responsibilities by bringing a systematic disciplined approach to assessing the effectiveness of the design and execution of the system of internal controls and risk management processes. The objective assessment of internal controls and risk management processes by the internal audit activity provides management, the oversight body, and external stakeholders with independent assurance that the organization's risks have been appropriately mitigated. Because internal auditors are experts in understanding organizational risks and internal controls available to mitigate these risks, they assist management in understanding these topics and provide recommendations for improvements.

Organizations which do not have an internal audit function are therefore missing out on the valuable benefits that professional internal auditors provide. In addition, they are also running the risk of relying on management who may not be in the best position to provide skilled, independent, and objective opinions on internal controls.

Some organizations assign internal auditing on a part-time basis to an existing staff member who has other responsibilities. When this occurs, the person does not have the professional internal audit training or experience necessary for optimal effectiveness. Such organizations run the risk of poorly performed audits and reviews, and this individual, who may be relatively junior in the organization, may lack the organizational status and stature to achieve positive results. In this environment, high-risk processes may not be identified for reviews and serious internal control deficiencies may be overlooked.

A primary lesson from the financial failure and collapse of numerous organizations is that good governance, risk management, and internal controls are essential to corporate success and longevity. Because of its unique and objective perspective, in-depth organizational knowledge, and application of sound audit and consulting principles, a well functioning, fully resourced and independent internal audit activity is well positioned to provide valuable support and assurance to an organization and its oversight entities.

## How do internal and external auditors differ and how should they relate?

Although they are independent of the activities they audit, internal auditors are integral to the organization and provide ongoing monitoring and assessment of all activities. On the contrary, external auditors are independent of the organization, and provide an annual opinion on the financial statements. The work of the internal and external auditors should be coordinated for optimal effectiveness and efficiency.

Internal and external auditors have mutual interests regarding the effectiveness of internal financial controls. Both professions adhere to codes of ethics and professional standards set by their respective professional associations. There are, however, major differences with regard to their relationships to the organization, and to their scope of work and objectives.

The internal auditors are part of the organization. Their objectives are determined by professional standards, the board, and management. Their primary clients are management and the board. External auditors are not part of the organization, but are engaged by it. Their objectives are set primarily by statute and their primary client - the board of directors.

The internal auditors scope of work is comprehensive. It serves the organization by helping it accomplish its objectives, and improving operations, risk management, internal controls, and governance processes. Concerned with all aspects of the organization - both financial and non-financial - the internal auditors focus on future events as a result of their continuous review and evaluation of controls and processes. They also are concerned with the prevention of fraud in any form.

The primary mission of the external auditors is to provide an independent opinion on the organization's financial statements, annually. Their approach is historical in nature, as they assess whether the statements conform with generally accepted accounting principles, whether they fairly present the financial position of the organization, whether the results of operations for a given period of time are accurately represented, and whether the financial statements have been materially affected.

The internal and external auditors should meet periodically to discuss common interests; benefit from their complementary skills, areas of expertise, and perspectives; gain understanding of each other's scope of work and methods; discuss audit coverage and scheduling to minimize redundancies; provide access to reports, programs and working papers; and jointly assess areas of risk. In fulfilling its oversight responsibilities for assurance, the board should require coordination of internal and external audit work to increase economy, efficiency, and effectiveness of the overall audit process.

## Is it mandatory to have an internal audit activity?

The New York Stock Exchange (NYSE) in the United States and many stock exchanges in other countries require publicly traded companies to have an internal audit activity to provide assessment of internal control and risk management. Many private companies, though not required to do so, also are establishing internal auditing.

Whether an organization is required to have an internal audit activity or not depends on the respective regulatory requirements that govern the organization. In the United States, the New York Stock Exchange (NYSE) requires publicly traded companies to "maintain an internal audit function to provide management and the audit committee with ongoing assessments of the company's risk management processes and system of internal controls." This requirement was effective October 31, 2004. Stock exchanges throughout the world have their own norms governing such companies, and some have implemented requirements similar to those of the NYSE.

Although private companies - those not publicly listed - are not required to have internal auditing, many of them have established an internal audit activity as one of its core organizational governance elements.

A well functioning, adequately resourced internal audit activity that works collaboratively with management and the board is a key resource in identifying risks and recommending improvements to an organization's governance, risk management, internal controls, and operations. The internal auditors' unique perspective of independence and objectivity, knowledge of the organization, and understanding and application of sound consulting and audit principles make them ideal for this role.

### Helpful IIA References:

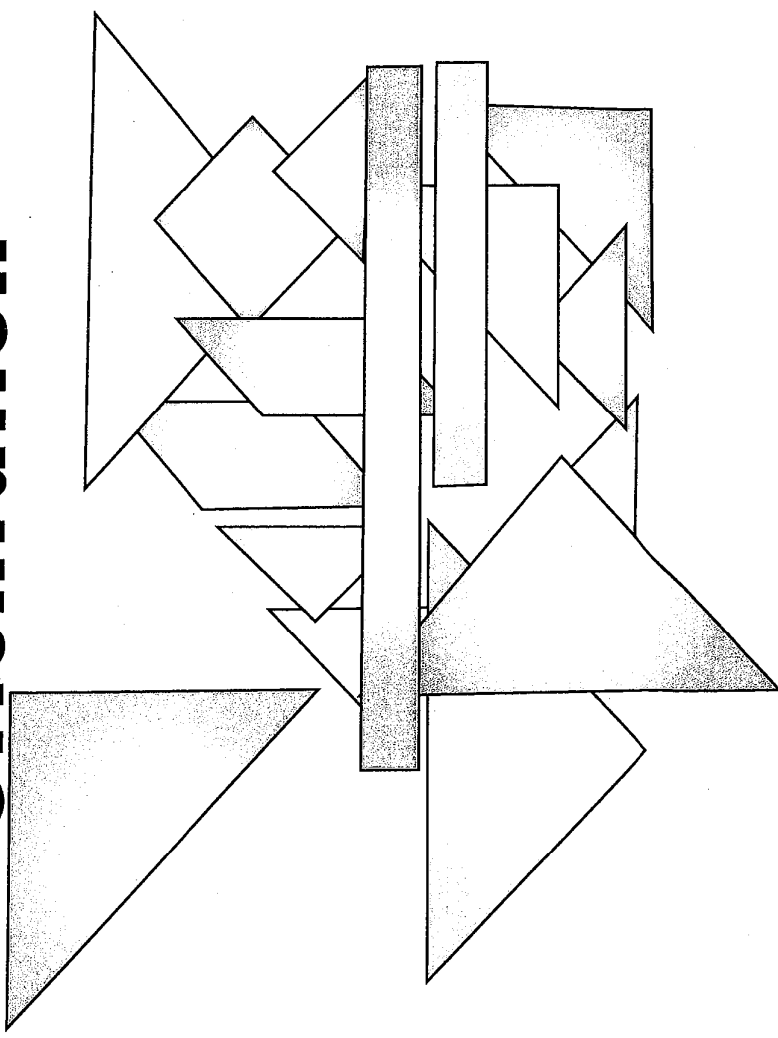
Guidance on "Internal Auditing's Role in Section 302 and 404 of the US Sarbanes Oxley Act of 2002"

"Establishing an Internal Audit Shop"

"The Role of Internal Audit in Corporate Governance and Management"

**ATTACHMENT #2**

# **Corporate Compliance Orientation**



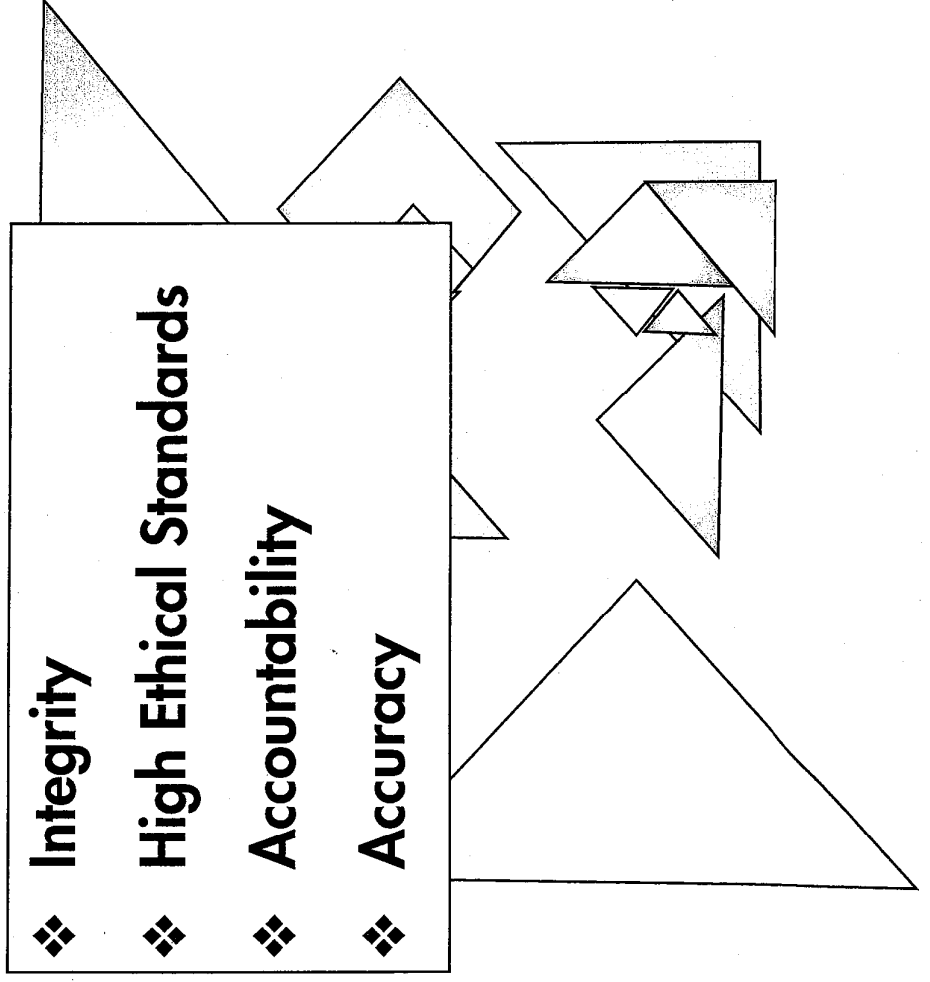
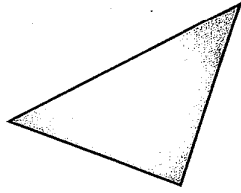
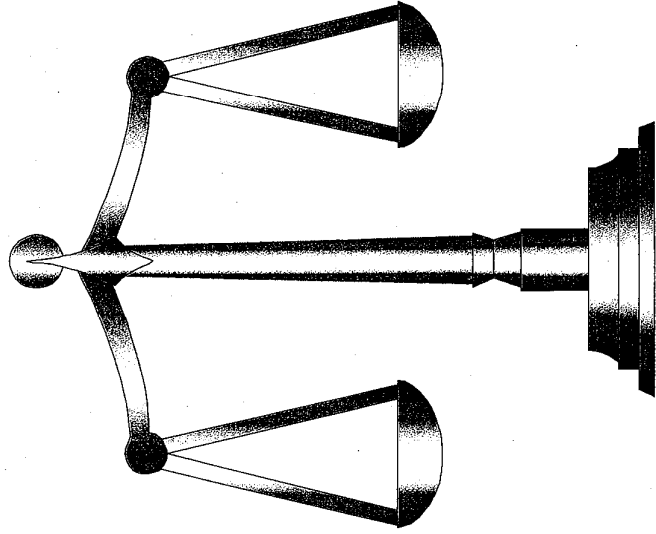
# Corporate Compliance

❖ Integrity

❖ High Ethical Standards

❖ Accountability

❖ Accuracy



# **Components of Corporate Compliance**

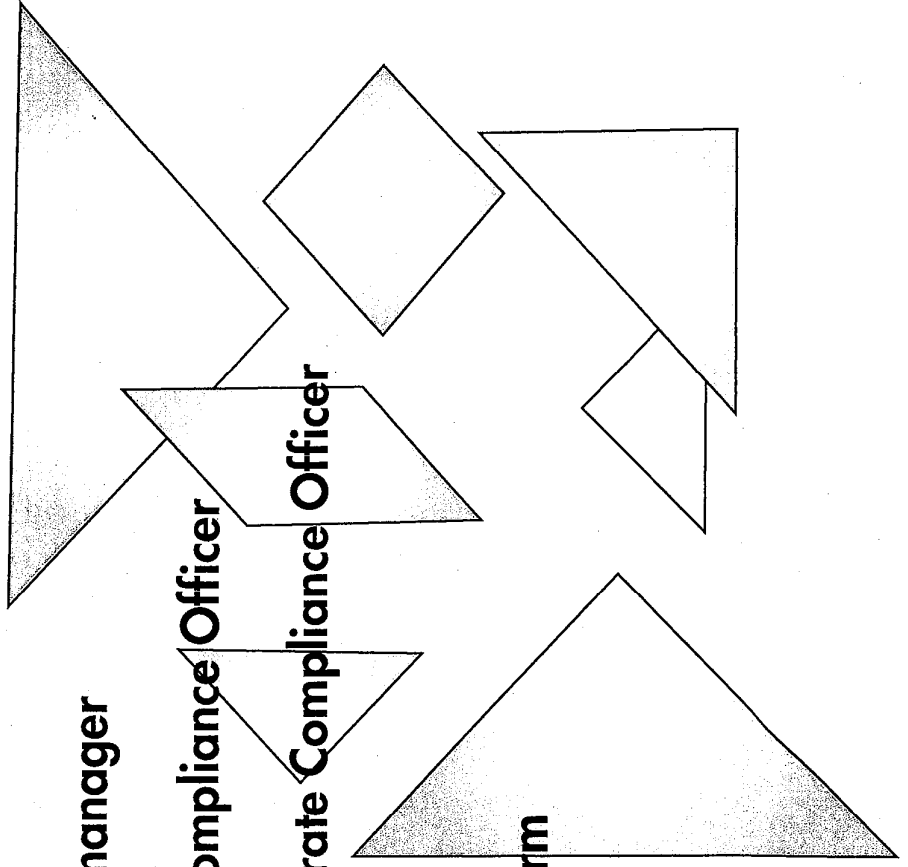
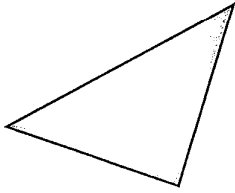
- ❖ **Risk Assessment, Auditing & Monitoring**
- ❖ **Education & Training**
- ❖ **Complaint Tracking & Investigations**
- ❖ **Corrective Action & Discipline**
- ❖ **Disclosures/Report Violations**

# Reporting Concerns/Violations

## ❖ 4 Ways

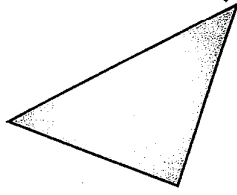
- Talk to your supervisor/manager
- Talk to your Corporate Compliance Officer
- Talk to the Bureau Corporate Compliance Officer
- Complete Compliance

Investigation/Referral Form





# Summarize



## ❖ Corporate Compliance

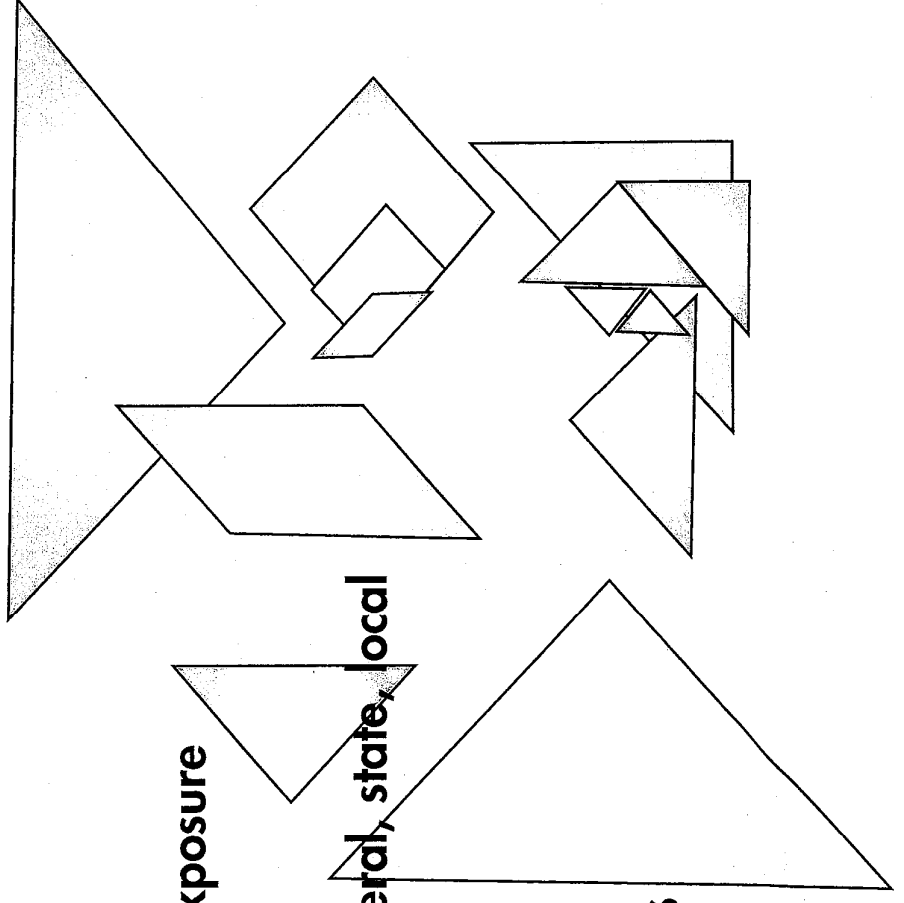
- Accountability

## ❖ Objectives

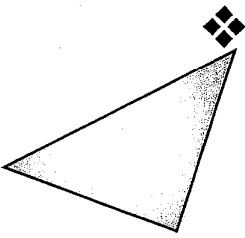
- Reduce & Minimize Risk & Exposure
- Protect Funds
- Ensure Compliance with Federal, state, local laws, rules & regulations

## ❖ Educate & Train

## ❖ Report Concerns/Violations



# Next Steps



## Targeted Training

- Coders
- Financial Personnel
- Physicians
- Nurses
- Utilization
- Admissions
- Trainers

