DUPAGE COUNTY HEALTH DEPARTMENT
A Blended Component Unit of
DuPage County, Illinois

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE
AND MANAGEMENT

As of and for the Year Ended November 30, 2015
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REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE
To the Honorable President and Members
of the Board of Health
DuPage County Health Department
Wheaton, Illinois

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of the DuPage County Health Department (Department) for the year ended November 30, 2015 and have issued our report thereon dated July 19, 2016. This letter presents communications required by our professional standards.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards and OMB Circular A-133

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards and OMB Circular A-133. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the Board of their responsibilities.

We considered the Department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. We also considered internal control over compliance with types of requirements that could have a direct and material effect on a major federal program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for a major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.
Honorable President and Members
of the Board of Health
DuPage County, Illinois

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the Department's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the purpose of expressing an opinion on the Department's compliance with those requirements. While our audit provides a reasonable basis for our opinion on compliance, it does not provide a legal determination on the Department's compliance with those requirements.

We have issued a separate document which contains the results of our audit procedures to comply with OMB Circular A-133.

**OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS**

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

**PLANNED SCOPE AND TIMING OF THE AUDIT**

We performed the audit according to the planned scope and timing previously communicated to you in our communication dated May 12, 2015.

**QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES**

**Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Department are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Department changed accounting policies related to accounting and reporting for pension liabilities by adopting Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68 in 2015. Beginning net position has been restated as a result of adopting these pronouncements.

We noted no transactions entered into by the Department during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Allowances on patient accounts receivable balances are estimated based on management judgment, past reimbursement history, contracts with third party payors or rates established by government payors, as applicable.
Honorable President and Members
of the Board of Health
DuPage County, Illinois

QUALITATIVE ASPECTS OF THE ENTITY’S SIGNIFICANT ACCOUNTING PRACTICES (cont.)

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

A summary of uncorrected financial statement misstatements follows this required communication. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor’s report. We are pleased to report that no such disagreements arose during the course of our audit.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

INDEPENDENCE

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the Department that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of for the year ended November 30, 2015, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the Department in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the Department other than audit services provided in connection with the audit of the current year’s financial statements and nonaudit services which in our judgment do not impair our independence.
INDEPENDENCE (CONTINUED)

> Financial statement preparation
> Adjusting journal entries
> Trial balance formatting from general ledger data

None of these nonaudit services constitute an audit under generally accepted auditing standards, including Government Auditing Standards.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

OTHER MATTERS

With respect to the required supplementary information (RSI) that supplements the basic financial statements, we applied certain limited procedures to the RSI consisting of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

RESTRICTION ON USE

This information is intended solely for the use of the DuPage County Health Board and management and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

Baker Tilly Victor Kraus, LLP
Oak Brook, Illinois
July 19, 2016
July 19, 2016

Baker Tilly Virchow Krause, LLP
1301 W. 22nd Street
Suite 400
Oak Brook, IL 60523

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the DuPage County Health Department as of November 30, 2015 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the DuPage County Health Department and the respective changes in financial position in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the 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. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.

2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. 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.

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

5. Significant assumptions we used in making accounting estimates, if any, are reasonable.

6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.

7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

8. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal awards.

9. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the basic financial statements as a whole. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.

10. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

Information Provided

11. 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 financial records and related data, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
   b. Additional information that you have requested from us for the purpose of the audit.
   c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
d. Minutes of the meetings of DuPage County Board of Health. or summaries of actions of recent meetings for which minutes have not yet been prepared.

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

13. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
   a. Management,
   b. Employees who have significant roles in internal control, or
   c. Others where the fraud could have a material effect on the financial statements.

14. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.

15. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

16. There are no known related parties or related party relationships and transactions of which we are aware.

17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

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

19. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

20. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.

21. The DuPage County Health Department has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

22. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives,
including legal and contractual provisions for reporting specific activities in separate funds.

23. There are no:
   a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
   b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
   c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.
   d. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.

24. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.
   a. Financial statement preparation
   b. Adjusting journal entries
   c. Trial balance formatting from general ledger data

None of these nonattest services constitute an audit under generally accepted auditing standards, including Government Auditing Standards.

25. The DuPage County Health Department has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

26. The DuPage County Health Department has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

27. The financial statements properly classify all funds and activities.

28. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

29. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
30. The DuPage County Health Department has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
31. Provisions for uncollectible receivables, if any, have been properly identified and recorded.
32. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
33. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
34. Interfund, internal, and intra entity activity and balances have been appropriately classified and reported.
35. Deposits and investment securities are properly classified as to risk, and investments are properly valued. Collateralization agreements with financial institutions, if any, have been properly disclosed.
36. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.

37. We have appropriately disclosed the DuPage County Health Department's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.

38. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

39. With respect to the supplementary information, (SI):

   a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

   a. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the
supplementary information no later than the date we issue the supplementary information and the auditor’s report thereon.

40. We agree with the restatement presented in the current year’s financial statements.

41. With respect to federal award programs:
   a. We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, OMB Circular A 133, Audits of States, Local Governments, and Non Profit Organizations, including requirements relating to preparation of the schedule of expenditures of federal awards (SEFA).

   b. We acknowledge our responsibility for presenting the SEFA in accordance with the requirements of OMB Circular A-133 §310.b and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A 133 §310.b. The methods of measurement and presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFA.

   c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditors’ report thereon.

   d. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A 133 and included in the SEFA, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

   e. We are responsible for understanding and complying with, and have complied with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal program.

   f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal programs that provide reasonable assurance that we are administering our federal awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective
action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.

g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal agencies or pass through entities relevant to the programs and related activities.

h. We have received no requests from a federal agency to audit one or more specific programs as a major program.

i. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the OMB Compliance Supplement relating to federal awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the direct and material compliance requirements of federal awards.

j. We have disclosed any communications from grantors and pass through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.

k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation agreements, and internal or external monitoring that directly relate to the objectives of the compliance audit, if any, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors’ report.

l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A 87, Cost Principles for State, Local, and Tribal Governments, and OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

n. We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal program financial reports and claims for advances and reimbursements.

o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

p. We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors’ report.
q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the date as of which compliance was audited.

r. Federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.

s. The copies of federal program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal agency or pass through entity, as applicable.

t. We have charged costs to federal awards in accordance with applicable cost principles.

u. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A 133 and we have provided you with all information on the status of the follow up on prior audit findings by federal awarding agencies and pass through entities, including all management decisions.

v. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A 133.

w. We are responsible for preparing and implementing a corrective action plan for each audit finding.

Sincerely,

DuPage County Health Department

Signed: [Signature]

Signed: [Signature]

Signed: [Signature]
### DuPage County Health Department
SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

As of and For the Year Ended November 30, 2015

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#### Financial Statements Effect - Debit (Credit) to Financial Statement Total

<table>
<thead>
<tr>
<th></th>
<th>Total Assets/ Deferred Outflows</th>
<th>Total Net Position/ Fund Balances</th>
<th>Total Revenues</th>
<th>Total Expenses/ Expenditures</th>
<th>Change in Net Position/ Fund Balances</th>
<th>Beginning Net Position</th>
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<tr>
<td>Governmental Activities</td>
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<td>389,558</td>
<td>-</td>
<td>311,675</td>
<td>311,675</td>
<td>405,723</td>
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<td>General Fund</td>
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<td>(174,257)</td>
<td>-</td>
<td>(10,337)</td>
<td>(10,337)</td>
<td>-</td>
</tr>
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REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE
To the Honorable President and Members
of the Board of Health
DuPage County Health Department
Wheaton, Illinois

In planning and performing our audit of the financial statements of the DuPage County Health Department (Department) as of and for the year ended November 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its 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 significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

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 material weakness is a deficiency or 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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

Oak Brook, Illinois
July 19, 2016
OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE
TWO WAY COMMUNICATION REGARDING YOUR AUDIT

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year’s audit. It is important that you understand the following points about the scope and timing of our next audit:

a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.

b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:

   > Identify types of potential misstatements.
   > Consider factors that affect the risks of material misstatement.
   > Design tests of controls, when applicable, and substantive procedures.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. Since our audit is performed in accordance with Government Auditing Standards, our report will include a paragraph that states that the purpose of the report is solely to describe the (a) scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance and (b) that the report is an integral part of an audit performed in accordance with Government Auditing Standards in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose.

c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

With respect to the audit of the federal awards programs:

a. We address the significant risks of material noncompliance, whether due to fraud or error, through our detailed audit procedures.
b. We will obtain an understanding of the five components of internal control sufficient to assess the
risk of material noncompliance related to the federal awards whether due to error or fraud, and to
design the nature, timing, and extent of further audit procedures. We will obtain a sufficient
understanding by performing risk assessment procedures to evaluate the design of controls
relevant to an audit of the federal awards and to determine whether they have been implemented.

We will use such knowledge to:

> Identify types of potential noncompliance.
> Consider factors that affect the risks of material noncompliance.
> Design tests of controls, when applicable, and other audit procedures.

Our audit will be performed in accordance with U.S. generally accepted auditing standards,
Government Auditing Standards and OMB Circular A-133.

We will not express an opinion on the effectiveness of internal control over financial reporting or
compliance with laws, regulations, and provisions of contracts or grant programs. Since our audit
is performed in accordance with Government Auditing Standards and OMB Circular A-133, our
report will include a paragraph that states that the purpose of the report is solely to describe (a)
the scope of testing of internal control over financial reporting and compliance and the result of
that testing and not to provide an opinion on the effectiveness of internal control over financial
reporting or on compliance, (b) the scope of testing internal control over compliance for major
programs and major program compliance and the result of that testing and to provide an opinion
on compliance but not to provide an opinion on the effectiveness of internal control over
compliance and, (c) that the report is an integral part of an audit performed in accordance with
Government Auditing Standards in considering internal control over financial reporting and
compliance and in accordance with OMB Circular A-133 in considering internal control over
compliance and major program compliance. The paragraph will also state that the report is not
suitable for any other purpose.

c. The concept of materiality recognizes that some matters, either individually or in the aggregate,
are important for reporting material noncompliance while other matters are not important. In
performing the audit, we are concerned with matters that, either individually or in the aggregate,
could be material to the entity's federal awards. Our responsibility is to plan and perform the audit
to obtain reasonable assurance that material noncompliance, whether caused by error or fraud, is
detected.

We are very interested in your views regarding certain matters. Those matters are listed here:

a. We typically will communicate with your top level of management unless you tell us otherwise.

b. We understand that the Department and Health Board have the responsibility to oversee the
strategic direction of your organization, as well as the overall accountability of the entity.
Management has the responsibility for achieving the objectives of the entity.

c. We need to know your views about your organization’s objectives and strategies, and the related
business risks that may result in material misstatements.

d. Which matters do you consider warrant particular attention during the audit, and are there any
areas where you request additional procedures to be undertaken?

e. Have you had any significant communications with regulators or grantor agencies?

f. Are there other matters that you believe are relevant to the audit of the financial statements or the
federal awards?
Also, is there anything that we need to know about the attitudes, awareness, and actions of the Department concerning:

a. The Department’s internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?

b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. We will perform preliminary financial audit work during early January. Our final financial and single audit fieldwork is scheduled during the winter to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial and single audit procedures at our office and issue drafts of our reports for your review. Final copies of our reports and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor’s sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions or wish to provide other feedback. We welcome the opportunity to talk with you.
COMMUNICATION OF INFORMATIONAL POINTS TO MANAGEMENT
**Government Fraud Prevention and Detection: Now is the Time to Act**

When it comes to preventing and detecting fraud in government, being proactive is critical. In fact, government is the second most likely industry to be impacted by fraud. According to the audit standards, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. To get started, your government should conduct a fraud risk assessment to identify where and how fraud might occur and what individuals may be in a position to commit fraud. Once you’ve identified your entity’s fraud risk areas, the next step is to develop a fraud risk assessment and investigation policy.

As you begin your fraud risk assessment or develop tools to prevent and detect fraud, it is important to keep in mind the following information provided by the Association of Certified Fraud Examiners:

- Misappropriation of assets accounts for 80 percent of fraud
- The primary internal control weaknesses observed are lack of internal controls, lack of management review, override of existing internal controls and poor tone at the top
- A tip is the most effective tool to catch a fraudster followed by management review
- The professional requirements and objectives of a financial audit are different than a forensic audit. Due to the nature of a financial audit, less than 10 percent of frauds have been discovered as a result of a financial audit conducted by an independent accounting firm.

If your government has not gone through a fraud risk assessment or does not have a plan to prevent and detect fraud, we recommend that this be done and then updated on a regular basis. We are available to assist you with this process.
**GASB Updates**

The following is a schedule of GASB projects:

<table>
<thead>
<tr>
<th>Task or Event</th>
<th>Effective Date</th>
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<tbody>
<tr>
<td>GASB 72 – Fair Value Measurement and Application</td>
<td>For financial statements for periods beginning after June 15, 2015</td>
<td>Items that are now subject to fair value measurement that weren’t before: private equity/hedge funds, real estate investments, many investments that were previously carried at cost or under the equity method, derivatives will now be measured using exit price, donated long term assets. Does not affect money markets, investments in 2a7-like pools, or assets held by the government that enhance the ability to provide services.</td>
</tr>
<tr>
<td>GASB 73 – Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68</td>
<td>For fiscal years beginning after June 15, 2016 for pensions that are not within the scope of GASB 68. For fiscal years beginning after June 15, 2015 for pensions within the scope of GASB 67 and 68.</td>
<td>Part I extends the approach of GASB 68 to all pensions (with some modifications. Part II clarifies certain requirements of GASB 67 and 68.</td>
</tr>
<tr>
<td>GASB 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans and GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</td>
<td>GASB 74: For fiscal years beginning after June 15, 2016 GASB 75: For fiscal years beginning after June 15, 2017</td>
<td>These standards have similarities to the previous OPEB standards, most notably the definition of an OPEB and the option of the alternative measurement method for small governments. However, the calculation and reporting of the OPEB liability and various required disclosures will change under the new standards, becoming similar to the pension standards.</td>
</tr>
<tr>
<td>GASB 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments</td>
<td>For reporting periods beginning after June 15, 2015</td>
<td>Officially established accounting principles – GASB statements (Category A) and GASB Technical Bulletins, implementation guides and literature of the AICPA cleared by the GASB (Category B)</td>
</tr>
</tbody>
</table>
## INFORMATIONAL POINTS (cont.)

### GASB UPDATES (cont.)

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<tr>
<td>GASB 77 – Tax Abatement Disclosures</td>
<td>For financial statements for periods beginning after December 15, 2015</td>
<td>Tax abatements are a reduction in tax revenue that has the following characteristics: (1) An agreement between one or more governments and an individual or entity in which: (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and; (b) the individual or entity promises to take specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. This definition is limited and excludes many incentive and other programs because they do not meet one or more of the requirements.</td>
</tr>
<tr>
<td>GASB 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans</td>
<td>For reporting periods beginning after December 15, 2015</td>
<td>This addresses a specific issue regarding the ability of state and local governmental employers to obtain necessary information related to pensions that are provided through certain multiple-employer benefit pension plans that are not a state or local governmental pension plan.</td>
</tr>
<tr>
<td>GASB 79 – Certain External Investment Pools and Pool Participants</td>
<td>For reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, which are effective for reporting periods beginning after December 15, 2015</td>
<td>It establishes criteria for an external investment pool to qualify for making the election to measure all its investments at amortized costs for financial reporting purposes.</td>
</tr>
<tr>
<td>GASB 80 – Blending Requirements for Certain Component Units an Amendment of GASB Statement No. 14</td>
<td>For reporting periods beginning after June 15, 2016</td>
<td>This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.</td>
</tr>
<tr>
<td>GASB 81 – Irrevocable Split-Interest Agreements</td>
<td>For reporting periods beginning after December 15, 2016</td>
<td>The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.</td>
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### INFORMATIONAL POINTS (cont.)

#### GASB UPDATES (cont.)

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<tr>
<td>Current Agenda Project: Pension Issues</td>
<td>Proposed effective date – June 30, 2017 (Exposure Draft issued in December 2015)</td>
<td>The object of this project is to consider the need for revisions to certain of the requirements in GASB 67 and 68, as a result of issues raised by stakeholders.</td>
</tr>
<tr>
<td>Current Agenda Project: Fiduciary Activities</td>
<td>Proposed effective date – December 31, 2018 (Exposure draft issued December 2015)</td>
<td>This project is to develop guidance regarding whether and how governments should report fiduciary activities in their general purpose external financial reports.</td>
</tr>
<tr>
<td>Current Agenda Project: Asset Retirement Obligations</td>
<td>Proposed effective date – December 31, 2018 (Exposure Draft issued in December 2015)</td>
<td>The objective of this project is to improve financial reporting by developing requirements on recognition and measurement for asset retirement obligations, other than landfills.</td>
</tr>
<tr>
<td>Current Agenda Project: Leases</td>
<td>The GASB Board is scheduled to issue an Exposure Draft in January 2016</td>
<td>The objective of this project is to reexamine issues associated with lease accounting, considering improvements to existing guidance.</td>
</tr>
<tr>
<td>Current Agenda Project: Certain Extinguishments Using Existing Resources</td>
<td>The GASB Board is scheduled to issue an Exposure Draft in August 2016</td>
<td>The project will consider improvements to the existing guidance related to debt extinguishments using existing resources. Debt extinguishments connected with troubled debt restructurings and bankruptcy, which are addressed in other pronouncements, are not included.</td>
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The GASB has a project on hold (conceptual framework for recognition) pending the reexamination of the financial reporting model.

The GASB revisits GASB standards ten (10) years after issuance. The GASB is currently revisiting GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments*, as well as reporting model-related pronouncements including Statements Nos. 37, 41, and No. 46 and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*. The GASB has indicated that they are revisiting the following major provisions of these standards: management’s discussion and analysis, government-wide financial statements, fund financial statements, capital asset reporting, budgetary comparisons, special purpose government reporting, and related notes to financial statements. In addition, the GASB is revisiting debt extinguishments, which includes a reexamination of GASB Statement Nos. 7, 23, and 62. We will share updates with you as they become available.

Full lists of projects, as well as many resources, are available on GASB’s website which is located at [www.gasb.org](http://www.gasb.org).