

**COUNTY OF MCHENRY**

REPORT ON FEDERAL AWARDS

As of and for the Year Ended November 30, 2011

# COUNTY OF MCHENRY

## TABLE OF CONTENTS As of and for the Year Ended November 30, 2011

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	1 – 2
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards	3 – 5
Schedule of Expenditures of Federal Awards	6 – 16
Notes to Schedule of Expenditures of Federal Awards	17 – 19
Schedule of Findings and Questioned Costs	20 – 31
Summary Schedule of Prior Audit Findings	32 – 35
Corrective Action Plan	36 – 45



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Chairman  
and Members of the County Board  
County of McHenry, Illinois

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of McHenry, Illinois as of and for the year ended November 30, 2011, which collectively comprise the County of McHenry's basic financial statements and have issued our report thereon dated May 4, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Public Building Commission and the Conservation District, as described in our report on the County of McHenry's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Public Building Commission and Conservation District were not audited in accordance with *Government Auditing Standards*.

***Internal Control Over Financial Reporting***

Management of the County of McHenry is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the County of McHenry's internal control over financial reporting as a basis for designing our audit 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 the County of McHenry's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of McHenry's internal control over financial reporting.

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.

To the Honorable Chairman  
and Members of the County Board  
County of McHenry, Illinois

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in the County of McHenry's internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. These deficiencies are items 2011-1, 2011-2, 2011-3, and 2011-4. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the County of McHenry'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 and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the County of McHenry in a separate letter dated May 4, 2012.

The County of McHenry's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County of McHenry's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the County of McHenry's management, governing body, others within the entity, federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

*Baker Tilly Virchow Krause, LLP*

Chicago, Illinois  
May 4, 2012

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133 AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Honorable Chairman  
and Members of the County Board  
County of McHenry, Illinois

**Compliance**

We have audited the County of McHenry's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County of McHenry's major federal programs for the year ended November 30, 2011. The County of McHenry's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County of McHenry's management. Our responsibility is to express an opinion on the County of McHenry's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County of McHenry's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County of McHenry's compliance with those requirements.

In our opinion, the County of McHenry complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended November 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-5, 2011-6, 2011-7, 2011-8, and 2011-9.

To the Honorable Chairman  
and Members of the County Board  
County of McHenry, Illinois

### ***Internal Control Over Compliance***

Management of the County of McHenry is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the County of McHenry's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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. Accordingly, we do not express an opinion on the effectiveness of the County of McHenry's internal control over compliance.

*A deficiency in internal control over compliance* 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-5, 2011-6, 2011-7, 2011-8, and 2011-9. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

### ***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of McHenry, Illinois as of and for the year ended November 30, 2011, and have issued our report thereon dated May 4, 2012 which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the County of McHenry's basic financial statements. Our report was modified to include a reference to other auditors who audited the financial statements of the Public Building Commission and the Conservation District, as described in our report on the County of McHenry's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements taken as a whole.

To the Honorable Chairman  
and Members of the County Board  
County of McHenry, Illinois

The County of McHenry's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the County of McHenry's responses and, accordingly, we express no opinion on these responses.

This report is intended solely for the information and use of the County of McHenry's management, governing body, others within the entity, federal awarding agencies and pass-through entities and is not intended to be, and should not be used by anyone other than these specified parties.

*Baker Tilly Vuchow Krause LLP*

Chicago, Illinois  
June 25, 2012

County of McHenry, Illinois  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended November 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant/ Pass-through Grantors' Number	Program or Award Amount	Federal Expenditures
U.S. Department of Agriculture				
Passed through Illinois Department of Human Services				
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC - 2011)	10.557	11GM340000	\$ 609,035	\$ 380,640
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC - 2012)	10.557	011GQ01226	576,700	220,524
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Breastfeeding Peer Counseling - 2012)	10.557	011GQ00340	40,000	12,591
Special Supplemental Nutrition Program for Women, Infants, and Children (Noncash Food Instruments - 2011)	10.557	n/a	-	1,519,384
Special Supplemental Nutrition Program for Women, Infants, and Children (Noncash Food Instruments - 2012)	10.557	n/a	-	1,110,897
		10.557 - subtotal	<u>1,225,735</u>	<u>3,244,036</u>
WIC Farmers' Market Nutrition Program - 2011	10.572	11GM340000	1,000	945
WIC Farmers' Market Nutrition Program - 2012	10.572	011GQ01451	1,000	58
		10.572 - subtotal	<u>2,000</u>	<u>1,003</u>
<b>Total U.S. Department of Agriculture</b>			<b>1,227,735</b>	<b>3,245,039</b>
Department of Commerce				
Passed through Illinois Emergency Management Agency				
Public Safety Interoperable Communications Grant Program	11.555	07PSICMCH2	43,740	43,740
<b>Total Department of Commerce</b>			<b>43,740</b>	<b>43,740</b>

County of McHenry, Illinois  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended November 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number		Grant/ Pass-through Grantors' Number	Program or Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development					
Community Development Block Grant (CDBG) - 2007	14.218	* @	B-07-UC-17-0007	\$ 1,339,291	\$ 20,800
Community Development Block Grant (CDBG) - 2008	14.218	* @	B-08-UC-17-0007	1,301,979	8,526
Community Development Block Grant (CDBG) - 2009	14.218	* @	B-09-UC-17-0007	1,320,206	161,160
Community Development Block Grant (CDBG) - 2010	14.218	* @	B-10-UC-17-0007	1,045,438	214,318
Community Development Block Grant (CDBG) - 2011	14.218	* @	B-11-UC-17-0007	1,189,947	594,313
Neighborhood Stabilization Program (NSP)	14.218	* @	B-08-UN-17-0005	3,085,695	448,865
Neighborhood Stabilization Program (NSP) - Program income	14.218	* @	n/a	-	395,145
			14.218 - subtotal	<u>9,282,556</u>	<u>1,843,127</u>
Housing Investment Partnership Program (HOME)					
2003	14.239	*	M-03-UC-17-0219	551,423	91
2006	14.239	*	M-06-UC-17-0219	508,973	68
2007	14.239	*	M-07-UC-17-0219	509,595	118,707
2008	14.239	*	M-08-UC-17-0219	483,766	287,053
2009	14.239	*	M-09-UC-17-0219	534,447	120,940
2010	14.239	*	M-10-UC-17-0219	<u>532,300</u>	<u>451,647</u>
			14.239 - subtotal	<u>3,120,504</u>	<u>978,506</u>
ARRA - Community Development Block Grant (CDBG-R)	14.253-ARRA	* @	B-09-UY-17-0007	<u>353,648</u>	<u>83,461</u>
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257-ARRA	*	S-09-UY-17-0007	<u>540,732</u>	<u>172,817</u>
<b>Total U.S. Department of Housing and Urban Development</b>				<u><u>13,297,440</u></u>	<u><u>3,077,911</u></u>

County of McHenry, Illinois  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended November 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant/ Pass-through Grantors' Number	Program or Award Amount	Federal Expenditures
U.S. Department of Justice				
Drug Enforcement Administration				
DCE/SP Grant	16.000	2011-74	\$ 11,554	\$ 11,554
Bureau of Justice Assistance				
State Criminal Alien Assistance Program (SCAAP) - 2008	16.606	n/a	237,291	38,137
State Criminal Alien Assistance Program (SCAAP) - 2010	16.606	n/a	163,531	101,788
		16.606 - subtotal	400,822	139,925
Drug Court Discretionary Grant Program	16.585	2011-DC-BX-0024	305,717	7,334
Office of Community Oriented Policing Services				
Public Safety Partnership and Community Policing Grants (Starcom Tower)	16.710	2009CKWX0559	500,000	333,092
Passed through Illinois Criminal Justice Information Authority				
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories - 2011	16.803-ARRA	809124	83,394	83,394
<b>Total U.S. Department of Justice</b>			<b>1,301,487</b>	<b>575,299</b>
U.S. Department of Labor				
Passed through Illinois Department of Commerce and Economic Opportunity				
Workforce Investment Act				
Trade Adjustment Assistance	17.245	09-662002	312,242	236,267
Trade Adjustment Assistance	17.245	10-661002	43,169	24,719
Trade Adjustment Assistance	17.245	10-662002	141,913	56,420
		17.245 - subtotal	497,324	317,406

County of McHenry, Illinois  
Schedule of Expenditures of Federal Awards  
For the Year Ended November 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant/ Pass-through Grantors' Number	Program or Award Amount	Federal Expenditures
U.S. Department of Labor (Continued)				
Passed through Illinois Department of Commerce and Economic Opportunity (Continued)				
Workforce Investment Act (Continued)				
WIA Adult Program - (Program Income - 2010)	17.258	* @ n/a	\$ -	\$ 753
WIA Adult Program - (Program Income - 2011)	17.258	* @ n/a	-	742
WIA Adult Program - 2009	17.258	* @ 09-681002	505,670	32,324
WIA Adult Program - (10% Statewide Local Incentive)	17.258	* @ 08-672002	3,058	705
WIA Adult Program - 2010	17.258	* @ 10-681002	462,485	344,175
WIA Adult Program - (Local Incentive)	17.258	* @ 09-672002	10,002	622
WIA Adult Program - 2011	17.258	* @ 11-681002	420,791	64,060
WIA Adult Program - (Veterans Services - Work Experience)	17.258	* @ 08-677002	<u>4,233</u>	<u>4,233</u>
		17.258 - subtotal	<u>1,406,239</u>	<u>447,614</u>
ARRA - WIA Adult Program	17.258-ARRA	* @ 08-761002	333,671	10,654
ARRA - WIA Adult Program (Training for Dislocated Workers)	17.258-ARRA	* @ 08-736002	<u>21,233</u>	<u>21,233</u>
		17.258-ARRA - subtotal	<u>354,904</u>	<u>31,887</u>
WIA Youth Activities - (Program Income - 2010)	17.259	* @ n/a	-	1,115
WIA Youth Activities - (Program Income - 2011)	17.259	* @ n/a	-	1,127
WIA Youth Activities - 2009	17.259	* @ 09-681002	608,305	-
WIA Youth Activities - (10% Statewide Local Incentive)	17.259	* @ 08-672002	3,678	847
WIA Youth Activities - 2010	17.259	* @ 10-681002	684,233	506,069
WIA Youth Activities - (Local Incentive)	17.259	* @ 09-672002	14,798	920
WIA Youth Activities - 2011	17.259	* @ 11-681002	639,465	153,736
WIA Youth Activities - (Veterans Services - Work Experience)	17.259	* @ 08-677002	<u>6,262</u>	<u>6,262</u>
		17.259 - subtotal	<u>1,956,741</u>	<u>670,076</u>

County of McHenry, Illinois  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended November 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number		Grant/ Pass-through Grantors' Number	Program or Award Amount	Federal Expenditures
U.S. Department of Labor (Continued)					
Passed through Illinois Department of Commerce and Economic Opportunity (Continued)					
Workforce Investment Act (Continued)					
ARRA - WIA Youth Activities (Training for Dislocated Workers)	17.259-ARRA	* @	08-736002	\$ 31,413	\$ 31,413
WIA Dislocated Workers - 2009	17.260	* @	09-681002	992,651	49,681
WIA Dislocated Workers - (10% Statewide Local Incentive)	17.260	* @	08-672002	6,002	1,383
WIA Dislocated Workers - (Local Incentive)	17.260	* @	09-672002	21,039	1,308
WIA Dislocated Workers - (Veterans Services - Work Experience)	17.260	* @	08-677002	8,902	8,902
			17.260 - subtotal	1,028,594	61,274
ARRA - WIA Dislocated Workers	17.260-ARRA	* @	08-761002	1,139,146	104,125
ARRA - WIA Dislocated Workers (Training for Dislocated Workers)	17.260-ARRA	* @	08-736002	44,661	44,661
			17.260-ARRA - subtotal	1,183,807	148,786
WIA Dislocated Workers - (Program Income - 2010)	17.278	* @	n/a	-	1,585
WIA Dislocated Workers - (Program Income - 2011)	17.278	* @	n/a	-	1,604
WIA Dislocated Workers - 2010	17.278	* @	10-681002	972,787	680,960
WIA Dislocated Workers - (Trade Case Management)	17.278	* @	10-653002	319,501	237,936
WIA Dislocated Workers - 2011	17.278	* @	11-681002	910,262	107,844
WIA Dislocated Workers - (Trade Case Management)	17.278	* @	11-653002	58,897	25,411
			17.278 - subtotal	2,261,447	1,055,340
<b>Total U.S. Department of Labor</b>				<b>8,720,469</b>	<b>2,763,796</b>

County of McHenry, Illinois  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended November 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number		Grant/ Pass-through Grantors' Number	Program or Award Amount	Federal Expenditures
U.S. Department of Transportation					
Passed through Illinois Department of Transportation					
State and Community Highway Safety - (STEP - 2011)	20.600	@	OP1-0056-144	\$ 50,478	\$ 43,297
State and Community Highway Safety - (STEP - 2012)	20.600	@	OP2-0056-045	29,065	6,891
State and Community Highway Safety - (Memorial Day Mini-Grant - 2011)	20.600	@	OP1-0056-503	4,454	4,454
			20.600 - subtotal	<u>83,997</u>	<u>54,642</u>
Alcohol Impaired Driving Countermeasures Incentive Grants I - (STEP - 2012)	20.601	@	OP2-0056-045	25,195	1,465
Safety Belt Performance Grants - (IMAGE - 2009)	20.609	@	OP9-0056-007	48,730	8,712
Child Safety and Child Booster Seats Incentive Grants - (Child Safety - 2011)	20.613	@	OP1-0056-145	10,562	10,562
Child Safety and Child Booster Seats Incentive Grants - (Health Dept - 2011)	20.613	@	OP1-0056-262	5,457	5,457
			20.613 - subtotal	<u>16,019</u>	<u>16,019</u>
Passed through Illinois Emergency Management Agency					
Interagency Hazardous Materials Public Sector Training and Planning Grants - (HMEP - 2011)	20.703		1HMEPMCHE11	3,556	3,556
Passed through Chicago Metropolitan Agency for Planning					
Highway Planning and Construction - 2011	20.205		C-11-0007	80,409	49,600
Highway Planning and Construction - 2012	20.205		C-12-0007	92,180	30,430
Highway Planning and Construction - (2040 Planning Grant)	20.205		C-11-0044	200,000	78,213
			20.205 - subtotal	<u>372,589</u>	<u>158,243</u>
<b>Total U.S. Department of Transportation</b>				<u>550,086</u>	<u>242,637</u>

County of McHenry, Illinois  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended November 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant/ Pass-through Grantors' Number	Program or Award Amount	Federal Expenditures
U.S. Environmental Protection Agency Passed through Illinois Department of Public Health Performance Partnership Grants - (Potable Water - 2011)	66.605	15380124	\$ 18,975	\$ 18,975
<b>Total U.S. Environmental Protection Agency</b>			<b>18,975</b>	<b>18,975</b>
U.S. Department of Energy ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128-ARRA *	EE0000821	2,475,900	609,529
<b>Total U.S. Department of Energy</b>			<b>2,475,900</b>	<b>609,529</b>
U.S. Department of Education Passed through Illinois State Board of Education Special Education - Grants to States - 2011 Special Education - Grants to States - 2012	84.027A 84.027A	65-108-1080-51 65-108-1080-51	14,016 14,016	9,142 3,084
<b>Total U.S. Department of Education</b>			<b>28,032</b>	<b>12,226</b>
U.S. Department of Health and Human Services Passed through Illinois Department of Children and Family Services Promoting Safe and Stable Families - (FCS - 2011) Promoting Safe and Stable Families - (FCS - 2012)	93.556 93.556	5430071 5430072	33,098 33,098	18,336 18,208
		93.556 - subtotal	66,196	36,544

County of McHenry, Illinois  
Schedule of Expenditures of Federal Awards  
For the Year Ended November 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant/ Pass-through Grantors' Number	Program or Award Amount	Federal Expenditures
U.S. Department of Health and Human Services (Continued)				
Passed through Illinois Department of Public Health				
Maternal and Child Health Services Block Grant to the States - (Oral Health - 2011)	93.994	13480165	\$ 4,000	\$ 4,000
Maternal and Child Health Services Block Grant to the States - (Oral Health - 2012)	93.994	23480129	<u>4,000</u>	<u>209</u>
		93.994 - subtotal	<u>8,000</u>	<u>4,209</u>
Centers for Disease Control and Prevention-Investigations and Technical Assistance - (Breast & Cervical Cancer - 2011)	93.283	16180021	114,938	9,938
Centers for Disease Control and Prevention-Investigations and Technical Assistance - (Breast & Cervical Cancer - 2012)	93.283	26180021	108,800	40,989
Centers for Disease Control and Prevention-Investigations and Technical Assistance - (Tobacco Free - 2011)	93.283	13281054	<u>13,000</u>	<u>13,000</u>
		93.283 - subtotal	<u>236,738</u>	<u>63,927</u>
Public Health Emergency Preparedness - 2009-2011	93.069	* 07181054	457,475	124,254
Public Health Emergency Preparedness - 2012	93.069	* 27180060	178,670	66,412
Public Health Emergency Preparedness - (Cities Readiness - 2009-2011)	93.069	* 07181109	157,944	67,626
Public Health Emergency Preparedness - (Cities Readiness - 2012)	93.069	* 27180112	60,238	17,054
Public Health Emergency Preparedness - (PHER #1 - 2009-2011)	93.069	* 07181176	216,156	-
Public Health Emergency Preparedness - (PHER #3 - 2009-2011)	93.069	* 07181271	505,711	-
Public Health Emergency Preparedness - (PHER - 2011)	93.069	* 17180020	<u>193,428</u>	<u>193,428</u>
		93.069 - subtotal	<u>1,769,622</u>	<u>468,774</u>

County of McHenry, Illinois  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended November 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant/ Pass-through Grantors' Number	Program or Award Amount	Federal Expenditures
U.S. Department of Health and Human Services (Continued)				
Passed through Illinois Department of Public Health (Continued)				
ARRA - Immunization - (Immunization Expansion - 2010)	93.712-ARRA * @	05180368	\$ <u>33,371</u>	\$ <u>4,891</u>
Immunization Grants - (Noncash Assistance)	93.268 * @	n/a	-	402,593
Immunization Grants - (Vaccines for Children (AFIX) - 2011-2012)	93.268 * @	15180110	<u>35,000</u>	<u>29,442</u>
		93.268 - subtotal	<u>35,000</u>	<u>432,035</u>
Passed through Illinois Department of Human Services				
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances - (McHenry Co Care - 2011)	93.104	40CM001456	725,024	334,002
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances - (Program Income)	93.104	n/a	<u>-</u>	<u>204</u>
		93.104 - subtotal	<u>725,024</u>	<u>334,206</u>
Maternal and Child Health Services Block Grant to the States (Coordinated School Health Education - 2011)	93.994	11GM340000	27,000	12,895
Maternal and Child Health Services Block Grant to the States (Coordinated School Health Education - 2012)	93.994	011GQ01393	<u>26,500</u>	<u>13,446</u>
		93.994 - subtotal	<u>53,500</u>	<u>26,341</u>
Social Services Block Grant - (Family Case Management/Downstate & Teen Parent Services - 2011)	93.667	11GM340000	46,441	25,097
Social Services Block Grant - (Family Case Management/Downstate - 2012)	93.667	011GQ01144	<u>37,900</u>	<u>16,582</u>
		93.667 - subtotal	<u>84,341</u>	<u>41,679</u>
Temporary Assistance for Needy Families - (Teen Reach - 2011)	93.558	11GM341000	<u>46,200</u>	<u>39,548</u>

County of McHenry, Illinois  
Schedule of Expenditures of Federal Awards  
For the Year Ended November 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant/ Pass-through Grantors' Number	Program or Award Amount	Federal Expenditures
U.S. Department of Health and Human Services (Continued)				
Passed through Illinois Department of Human Services (Continued)				
Child Care and Development Block Grant - (Healthy Child Care Illinois - 2011)	93.575	11GM340000	\$ 60,000	\$ 35,896
Child Care and Development Block Grant - (Healthy Child Care Illinois - 2012)	93.575	011GQ01551	<u>60,000</u>	<u>23,979</u>
		93.575 - subtotal	<u>120,000</u>	<u>59,875</u>
Passed through Illinois Department of Healthcare and Family Services				
Medical Assistance Program	93.778	*	<u>420,465</u>	<u>420,465</u>
Child Support Enforcement	93.563	n/a	<u>8,269</u>	<u>8,269</u>
Passed through Illinois Public Health Association				
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance - 2011	93.944	1175703	<u>27,063</u>	<u>22,650</u>
Passed through Administrative Office of the Illinois Courts				
State Court Improvement Program (CPDC Grant) - FFY11	93.586	CIPDG0904	<u>27,639</u>	<u>27,429</u>
<b>Total U.S. Department of Health and Human Services</b>			<b>3,661,428</b>	<b>1,990,842</b>
Corporation For National And Community Service				
Passed through Illinois Department of Human Services				
AmeriCorps - 2011	94.006	111GL801000	125,910	61,582
AmeriCorps - 2012	94.006	211GL801000	<u>144,100</u>	<u>54,755</u>
		94.006 -subtotal	<u>270,010</u>	<u>116,337</u>
ARRA - AmeriCorps - 2011	94.006-ARRA	11GK922000	<u>10,689</u>	<u>75</u>
<b>Total Corporation For National And Community Service</b>			<b>280,699</b>	<b>116,412</b>

County of McHenry, Illinois  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended November 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant/ Pass-through Grantors' Number	Program or Award Amount	Federal Expenditures
Department of Homeland Security				
Passed through Illinois Emergency Management Agency				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	n/a	\$ <u>206,977</u>	\$ <u>206,977</u>
Emergency Management Performance Grants - 2011 - 2012	97.042	11EMAMCHEN	<u>90,723</u>	<u>78,861</u>
Passed through Illinois Law Enforcement Alarm System				
Homeland Security Grant Program - (EOC Grant)	97.067	10ILEASEOC	<u>37,665</u>	<u>31,686</u>
<b>Total Department of Homeland Security</b>			<b>335,365</b>	<b>317,524</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 31,941,356</b>	<b>\$ 13,013,930</b>

\* Denotes a major program.

@ Denotes a federal program cluster, see note 4 in the notes to schedule of expenditures of federal awards.

## COUNTY OF MCHENRY

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2011

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#### **NOTE 1 – REPORTING ENTITY**

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This Report on Federal Awards includes the federal awards of the County of McHenry, Illinois. The reporting entity for the county is based upon criteria established by the Governmental Accounting Standards Board.

The County of McHenry is the primary government according to GASB criteria, while the Public Building Commission is a blended component unit, and the Conservation District is a discretely presented component unit.

The Public Building Commission and the Conservation District were not required to have an audit in accordance with OMB Circular A-133.

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#### **NOTE 2 – BASIS OF PRESENTATION**

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The accounting records for some grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs are maintained on the accrual basis, i.e., when the revenue has been earned and the liability is incurred.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*.

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#### **NOTE 3 – NONCASH PAYMENTS**

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The County of McHenry, Illinois receives vaccines at no charge from the Illinois Department of Public Health through federally assisted programs – Immunization Grants (CFDA 93.268). The value of vaccines received during the year ended November 30, 2011 was \$376,321. Of this amount, \$91,634 remained unused, and was included as inventory at November 30, 2011.

The County of McHenry, Illinois receives non-cash assistance from the Illinois Department of Human Services under the Special Supplemental Food Program for Women, Infants and Children (WIC – CFDA 10.557), in the form of food instruments, which are distributed to qualifying WIC participants. Total distributions during the year ended November 30, 2011 were \$2,630,281.

## COUNTY OF MCHENRY

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2011

#### **NOTE 4 – FEDERAL PROGRAM CLUSTER**

The following programs have been identified as a cluster in accordance with the requirements of OMB Circular A-133:

<u>CFDA No.</u>	<u>CDBG – Entitlement Grants Cluster</u>	
14.218	Community Development Block Grant (CDBG)	\$ 1,843,127
14.253	Community Development Block Grant ARRA Entitlement Grants (CDBG-R)	83,461
	Total	<u>\$ 1,926,588</u>
<u>CFDA No.</u>	<u>WIA Cluster</u>	
17.258	WIA Adult Programs	\$ 447,614
17.258	WIA Adult Program – ARRA	31,887
17.259	WIA Youth Activities	670,076
17.259	WIA Youth Activities – ARRA	31,413
17.260	WIA Dislocated Workers	61,274
17.260	WAI Dislocated Workers – ARRA	148,786
17.278	WIA Dislocated Workers	1,055,340
	Total	<u>\$ 2,446,390</u>
<u>CFDA No.</u>	<u>Highway Safety Cluster</u>	
20.600	State and Community Highway Safety	\$ 54,642
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	1,465
20.609	Safety Belt Performance Grants	8,712
20.613	Child Safety and Child Booster Seats Incentive Grants	16,019
	Total	<u>\$ 80,838</u>
<u>CFDA No.</u>	<u>Immunization Cluster</u>	
93.268	Immunization Grants	\$ 432,035
93.712	ARRA – Immunization	4,891
	Total	<u>\$ 436,926</u>

## COUNTY OF MCHENRY

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2011

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#### NOTE 5 – SUBRECIPIENTS

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Of the federal expenditures presented in the schedule of expenditures of federal awards, the County of McHenry provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant (CDBG)	14.218	\$ 886,225
CDBG - Neighborhood Stabilization Program (NSP)	14.218	286,033
Home Investment Partnership Program (HOME)	14.239	868,376
Homeless Prevention and Rapid Re-Housing Program	14.257-ARRA	164,165
Community Development Block Grant ARRA (CDBG-R)	14.253-ARRA	83,461
Public Safety Interoperable Communications Grant Program	11.555	43,740
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	113,878
Temporary Assistance for Needy Families	93.558	<u>39,548</u>
Total		<u>\$ 2,485,426</u>

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#### NOTE 6 – INSURANCE AND LOANS OR LOAN GUARANTEES

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During the year ended November 30, 2011, McHenry County received no insurance, loans, or loan guarantees for the purpose of administering federal programs.

**COUNTY OF MCHENRY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended November 30, 2011

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**SECTION I – SUMMARY OF AUDITORS' RESULTS**

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***FINANCIAL STATEMENTS***

Type of auditors' report issued: *unqualified*

Internal control over financial reporting:

- > Material weakness(es) identified?                           yes                      X   no
  
- > Significant deficiencies identified that are  
not considered to be material weaknesses?                      X   yes                           none reported

Noncompliance material to basic financial  
statements noted?                           yes                      X   no

***FEDERAL AWARDS***

Internal control over major programs:

- > Material weakness(es) identified?                           yes                      X   no
  
- > Significant deficiencies identified that are  
not considered to be material  
weakness(es)?                      X   yes                           none reported

Type of auditor's report issued on compliance for major programs: *unqualified*

Any audit findings disclosed that are required to  
be reported in accordance with section 510(a) of  
Circular A-133?                      X   yes                           no

Auditee qualified as low-risk auditee?                      X   yes                           no

# COUNTY OF MCHENRY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2011

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### SECTION I – SUMMARY OF AUDITORS’ RESULTS (cont.)

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#### *FEDERAL AWARDS (cont.)*

Identification of major federal programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218, 14.253	CDBG – Entitlement Grants Cluster
14.239	Housing Investment Partnership Program (HOME)
14.257	ARRA – Homelessness Prevention and Rapid Re-Housing Program
17.258, 17.259, 17.260, 17.278	WIA - Cluster
81.128	ARRA – Energy Efficiency and Conservation Block Grant Program
93.069	Public Health Emergency Preparedness
93.268, 93.712	Immunization Grants Cluster
93.778	Medical Assistance Program

Dollar threshold used to distinguish between  
type A and type B programs:

\$ 390,418

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### SECTION II – FINANCIAL STATEMENT FINDINGS

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#### *FINDING 2011-1 – PAYROLL CHANGE HISTORY*

Generally, the county maintains good segregation of duties between those that are responsible for maintenance of data within the payroll system and those that are responsible for processing payroll. However, when changes are made to data within the payroll system by employees within Human Resources, they periodically utilize a function within the ADP module defined as a “Change History” option. Use of this option reduces the time and effort needed to make the requested changes, but it also lacks the ability to verify that these changes are supportable and legitimate. All changes to the payroll system should be independently reviewed, and while others not using this function are subject to review through the use of verification reports, those made with the change history function cannot be reviewed. This results in an internal control weakness.

We recommend the county either work with their payroll vendor to eliminate this function as an option, or determine if a report could be generated that would allow for an independent review.

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2011

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#### SECTION II – FINANCIAL STATEMENT FINDINGS

---

##### *FINDING 2011-1 – PAYROLL CHANGE HISTORY (cont.)*

###### ***Current Year Status***

Since this was first reported to you, the county has worked with their payroll vendor and determined that eliminating this function is not a viable option. Further, it was determined that currently, an edit report to track changes made using this option is also not available. We therefore completed some additional testing procedures and also reviewed the recently completed county internal audit of the Human Resource's (HR) Department and their related internal controls. With the understanding that this option will remain available to pre-determined users of the payroll system, we believe it is important to implement as many controls around this function as possible. Accordingly, toward year-end, this function has been limited to two employees within the HR department so as to restrict this option to just one primary user and a back-up at all times. The Director of Human Resources believes that this is critical to carry out the responsibilities and functions of his department. We agree that limiting this function to two employees will help to reduce the associated risks until an edit report can be developed and/or another option is made available.

In regards to accessing user profiles, all employees within HR have recently been restricted so that they can no longer make changes to their own profiles. We observed this and are confident this is now in place. However, even though this change has been made, HR employees still have the rights within the payroll system to change their access ability, thereby unlocking this feature, and once again having the ability to make changes to their own profiles. Therefore, this continues to present associated risks to the county. We recommend the county establish security over this area to permanently prevent users from being able to make changes to their own profiles.

###### ***Management's Response by Robert Ivetic – Human Resources Director***

*In accordance with the recommendation of the external auditors, the Human Resource Office will contact ADP (HRIS/Payroll vendor) to explore the elimination of the function or the generation of a usage report which can be used for independent review.*

*In accordance with the recommendation of the external auditors, the Human Resource Office will contact ADP (HRIS/Payroll vendor) to explore, if ADP can program the system so that HR users cannot make changes to their own profiles (permanently blocked internal to the system) or explore County internal security measures to accomplish the same.*

# COUNTY OF MCHENRY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2011

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### SECTION II – FINANCIAL STATEMENT FINDINGS (cont.)

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#### ***FINDING 2011-2 – VENDOR APPROVAL***

The ability to create new vendors is appropriately centralized within the county, but there should also be a formalized and documented control to assure the validity of all new vendors. The County Auditor's Office and the Purchasing Department are in the process of developing a vendor maintenance procedural guide. Inclusive in this will be a formal policy on how new vendors and changes to existing vendors are processed, including determining the validity of the vendor and how to facilitate an annual review of the vendor system.

#### ***Management's Response by Pamela Palmer – County Auditor***

*In fiscal year 2010, the County Auditor's Office and the Purchasing Department worked jointly on decreasing the number of active vendors from approximately 16,000 to fewer than 7,500. During fiscal year 2011, the refinement of the list continued based upon payment activity (date last active), the correction of vendor types in the financial system, and the gathering of updated required documents. This effort led to a further reduction in active vendors to approximately 6,200 and valuable information was learned to assist with writing the guidelines of vendor approval. This Vendor Maintenance Policy will be written and completed during the second quarter in 2012, with training provided to all applicable users of the vendor maintenance process in the financial software system. Contents of the policy will include vendor application, approval, data entry, and user responsibilities for continuing maintenance. This has been a time consuming task, but one in which the time spent will result in a stronger vendor database.*

#### ***FINDING 2011-3 – DECENTRALIZED BANK ACCOUNTS***

A checking account maintained by the County Clerk has an unresolved variance between the bank balance and the book balance. The bank account has been reconciled monthly and at year-end, but the variance continues to be a part of the reconciliation. All reconciling items should be supportable and consist of known items. We have determined that the variance is a result of funds held within the bank account that are unknown as to who is the recipient. Since the account is an agency fund, which is fiduciary in nature, all funds being held should be accounted for as to ownership. It was evident from our testing procedures that significant effort has occurred and progress made with identifying ownership of the majority of the funds. The County Clerk's office has identified approximately \$19,000 of the \$22,000 amount in question. In addition, reconciliations are occurring monthly. We recommend that the County Clerk's office request a State Attorney's opinion on how the remaining unresolved funds should be addressed, so that the account has no unknown, unsupported items that are being used during the process of verifying funds that remain in the account.

#### ***Management's Response by Katherine C. Schultz - McHenry County Clerk***

*Regarding the unresolved difference of \$2,793.18 in the County Clerk's redemption account; a letter was sent to the McHenry County State's Attorney's office, on April 26, 2012 asking for an opinion in regards to the possibility of turning said amount over to the County's General Fund. As soon as a response is received, the appropriate action will be taken.*

# COUNTY OF MCHENRY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2011

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### SECTION II – FINANCIAL STATEMENT FINDINGS (cont.)

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#### *FINDING 2011-4 – COMPLIANCE WITH PURCHASING ORDINANCE*

During the 2009 audit, we tested purchases made for compliance with the county's purchasing ordinance and Illinois State Statutes. Four out of the fifteen purchases tested did not utilize centralized purchasing, did not have a purchase order, and quotes were not obtained as required by S5-103 of the McHenry County purchasing ordinance. It is our understanding that these purchases should have used purchasing as all of them exceeded \$500 and originated in departments required to adhere to the purchasing ordinance. Three of the invoices originated in the County Health department and one originated in the County Sheriff department. Failure to utilize centralized purchasing not only results in non-compliance with county policies, but could result in lost saving opportunities often obtained through central purchasing efforts.

During the 2010 audit, we again noted inconsistency in compliance with the county purchasing ordinance. In response, we recommended that the County consider implementing certain best practices in regards to purchase orders to standardize procedures throughout the County. These recommendations included:

- > An approval trail should be required for creation, modification, and cancellation of purchase orders. There should be clear guidance on when approval is required (dollar amount threshold) and who should be designated with approval authority. Guidance should also be given to County staff on when a purchase order should be created, modified or cancelled.
- > In addition to requiring an approval trail, the County should identify the types of documents that should be maintained for each purchase order (such as bid results, contracts, board approval, etc). The County policy should also indicate which department has responsibility for maintaining these documents.
- > Guidance should be given to employees on the dollar amounts to be assigned to a purchase order. For example, should the purchase order be issued for the amount of an invoice, the amount of the project, or the amount to be spent with a vendor for the fiscal year.
- > To monitor the usage of the purchase order system, the County could consider implementing a tracking mechanism to determine the volume and frequency of purchase orders. A useful report may include the number and dollar amount of purchase orders created, modified and cancelled by department during a given period.
- > The County should develop a purchasing manual which would provide instruction to employees on how to navigate the purchasing process within the County. Such a document would provide county staff greater understanding and consistency in implementing the legal requirements contained in the purchasing ordinance on a daily basis.

#### *Current Year Status*

For 2011, we once again tested paid invoices for compliance with the county's purchasing ordinance. For the items sampled, we did not note any exceptions to the county's purchasing ordinance and Illinois State Statutes. For the items tested, those that were required to utilize purchasing did so, and purchase orders and quotes were obtained when necessary. **This portion of the comment will be removed next year. No formal response is required for this portion of the comment.**

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2011

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#### SECTION II – FINANCIAL STATEMENT FINDINGS (cont.)

---

##### **FINDING 2011-4 – COMPLIANCE WITH PURCHASING ORDINANCE (cont.)**

###### **Current Year Status (cont.)**

We also reviewed any changes made to the procurement process that may have implemented some or all of the best practices noted above. The Purchasing Department developed a rough draft version of a working document, titled "Purchasing Procedures". We commend purchasing for taking this first step in developing this document which can be utilized by other departments. Development of this document addresses our recommendation above regarding the development of a purchasing manual. We recommend Purchasing distribute this document to all county departments, or make it readily available on their website, and provide training as well. We also recommend that purchasing make it an initiative to continually update and enhance this document in the future, incorporating additional best practices we noted above.

From our testing this year, we also noted two additional areas where improvements to the purchasing process could be made:

- > For certain areas where services or goods are commonly procured, the county has entered into cooperative purchasing agreements with vendors. The concept behind these agreements is to take advantage of pooled purchasing efforts with other counties to secure more favorable pricing. While these cooperative purchasing agreements are commonly used, are advantageous to McHenry and other counties throughout the state, and specifically allowed within Article 10 of the Purchasing Ordinance, they do not always guarantee the best price or desired products. We recommend purchasing periodically seek additional competitive bids for these types of purchases to assure that the best price and product is still being obtained when compared to the cooperative purchasing agreements.
- > For items purchased in excess of \$500, there are numerous exceptions as to when the county's purchasing ordinance does not need to be followed. Some elected officials departments are exempt, while others are not. If there is a separate board that governs the department, use of the Purchasing Department is optional. Many other exceptions exist as well. To clarify these situations, provide training, and to serve as an internal audit tool so as to ensure compliance, we recommend a set of guidelines or a flow-chart type of approach be developed to clarify when the Purchasing Department and ordinance would apply, and when it would not. This document should be distributed to other departments and training provided.

###### **Management's Response by Cathy Link – Purchasing Director**

*The Purchasing Ordinance will be included in the annual budget manual as produced by County Administration. As per the County's desire to move toward paperless functions, the Purchasing Procedure Manual will be completed and available on the County's Intranet (Sharepoint) by September, 2012. Once completed, an email will be sent to all department heads and IFMS users notifying them of the availability to use this tool on line. Purchasing staff will offer department heads the opportunity to schedule individual staff training on a regular basis until the department staff has obtained working knowledge of the manual and the system. As always, Purchasing staff will address any concerns throughout the fiscal year(s).*

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2011

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#### SECTION II – FINANCIAL STATEMENT FINDINGS (cont.)

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##### *FINDING 2011-4 – COMPLIANCE WITH PURCHASING ORDINANCE (cont.)*

##### *Management's Response by Cathy Link – Purchasing Director (cont.)*

*For clarification purposes, a cooperative bid or proposal, in procurement terminology can be defined as below: (Definition provided by the National Institute of Governmental Purchasing – NIGP): (1) The action taken when two or more entities combine their requirements to obtain advantages of volume purchases including administrative savings and other benefits. (2) A variety of arrangements whereby two or more public procurement units purchase from the same supplier or multiple suppliers using a single Bid or RFP. (3) Cooperative procurement efforts may result in contracts that other entities may "piggyback". For comparison purposes, the Purchasing Department does regularly send out solicitations for items that may be offered on a cooperative purchasing agreement in addition to reviewing the agreement.*

*The Purchasing Department is working with County Administration to develop a summary guideline for determining when purchasing should be utilized per State Statute. This information is already available in the Purchasing Ordinance; however, we feel it would be better understood as a summary. This will be completed by May, 2012.*

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#### SECTION III – FEDERAL FINDINGS AND QUESTIONED COSTS

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*FINDING 2011-5 – CDBG – ENTITLEMENT GRANTS CLUSTER, CFDA No. 14.218 AND 14.253 (ARRA); HOUSING INVESTMENT PARTNERSHIP PROGRAM (HOME), CFDA No. 14.239; HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM, CFDA No. 14.257 (ARRA); PUBLIC HEALTH EMERGENCY PREPAREDNESS, CFDA No. 93.069*

##### **Criteria:**

Payroll expenditures charged to federal grants must be in accordance with the requirements of Circular A-87, *Cost Principles of State and Local Governments*. Per Circular A-87, when employees work solely on a single federal award, the charges for those employees must be supported by semi-annual certifications signed by the employee or supervisory official, which state that the employee worked solely on that program for the period covered by the certification. When employees work on multiple activities, grants, or cost objectives, the payroll expenditures charged to the grant must be supported by personnel activity reports which reflect an after the fact distribution of the actual activity of each employee. These reports must account for the total activity for which each employee is compensated, must be prepared at least monthly and coincide with one or more pay periods, and must be signed by the employees. Budgeted allocations may not be used to allocate salary costs to federal grants unless the County performs at least quarterly time studies to determine that the budgeted allocations coincide with actual activity. If the actual activity differs from the budgeted allocation by ten percent or more, the County must make adjustments to its payroll cost allocations.

##### **Condition:**

Currently, payroll expenditures are allocated to the various federal grants based upon set percentages. The County does not validate these percentages with timecards, personnel activity reports, or time studies.

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2011

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#### SECTION III – FEDERAL FINDINGS AND QUESTIONED COSTS (cont.)

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***FINDING 2011-5 – CDBG – ENTITLEMENT GRANTS CLUSTER, CFDA No. 14.218 AND 14.253 (ARRA); HOUSING INVESTMENT PARTNERSHIP PROGRAM (HOME), CFDA No. 14.239; HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM, CFDA No.14.257 (ARRA); PUBLIC HEALTH EMERGENCY PREPAREDNESS, CFDA No. 93.069 (cont.)***

**Effect:**

It is possible that the payroll expenditures allocated to the grant are not reflective of the actual time spent on grant activities.

**Recommendation:**

We recommend that the County review its policies and procedures by which it is allocating payroll expenditures to the various federal grants to ensure they are compliant with the requirements noted in Circular A-87.

**Questioned Costs:** Questioned costs are not able to be determined.

***Management's Response by Jeffrey Harris – Community Development Administrator***

*We acknowledge the finding for 2011. As of April 2012, Community Development (CD) Division staff is now submitting a weekly timesheet to the CD Administrator for entry into the County's payroll tracking system through ADP. Payroll draws processed through the Housing and Urban Development's Integrated Disbursement Information System (IDIS) and Disaster Relief Grant Reporting (DRGR) software systems are attributable to actual hours spent on each grant and not an estimated percentage of time.*

***Management's Response by Pat McNulty – Public Health Administrator***

*For the public health emergency preparedness program, all payroll costs charged to the program for employees that worked on multiple activities were properly supported by quarterly time studies, as required by Circular A-87. However, for one employee that worked solely on the public health emergency preparedness program, the required semi-annual certifications, signed by the employee or supervisory official, which state that the employee worked solely on that program for the period covered by the certification, were not completed. Accordingly, we believe that there are no questioned costs related to this grant program. We acknowledge the requirement to complete the semi-annual certification for employees that work solely on a single federal award. As a corrective action, we have created a new procedure to ensure that semi-annual certifications or quarterly time studies, as applicable, are completed for all employees that work on grants.*

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2011

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#### SECTION III – FEDERAL FINDINGS AND QUESTIONED COSTS (cont.)

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##### **FINDING 2011-6 – CDBG – ENTITLEMENT GRANTS CLUSTER – CFDA No. 14.218 AND 14.253 (ARRA)**

###### **Criteria:**

Program requirements described in 24 CFR part 570 require the submission of SF-272 Federal Cash Transactions Report on a quarterly basis.

###### **Conditions:**

The Federal Cash Transactions Reports for all quarters of 2011 were not mathematically accurate. The County is entering the beginning and ending balances per bank statements, the total receipts per HUD reports, and the gross disbursements per the bank statements withdrawals. The difference (usually caused by timing issues) is not noted on the report, thereby causing the report to not foot. Instructions for line item 11j state that the total amount of cash on hand at the end of the reporting period should be total cash available less gross disbursements plus/minus any adjustments.

In addition, we noted that the reports are not reviewed by someone other than the preparer prior to submission.

###### **Effect:**

The report is not an accurate display of the account activity during each quarter.

###### **Recommendation:**

We recommend that County update the adjustments line (line i on the form) to reflect the differences and include an explanation of the items in the remarks section of the report. Also, a secondary review is recommended prior to submittal by someone other than the original preparer.

**Questioned Costs:** Questioned costs are not able to be determined.

##### ***Management's Response by Jeffrey Harris – Community Development Administrator***

*Historically, CD Division staff procedure guidelines instructed staff to use the beginning and ending balance of the monthly bank statements and a PR05 draw report from the IDIS system to complete the SF-272 report. During an internal audit that occurred just prior to the external audit, it was discovered that the report does not foot because there is a delay in time between when a transaction is entered into the IDIS system and when the County bank account shows the funds deposited. The County Auditor's office has recommended that CD Division staff use the bank statement reconciliation created by the County Treasurer's office to complete the SF-272 rather than the bank statements. CD Division staff has requested the bank reconciliations on a monthly basis in addition to the bank statements. A corrected report will be created, and the CD Administrator will review the report with the CD Specialist prior to re-submitting the revised report to Region V, U.S. Department of Housing and Urban Development (HUD). CD Division has created a Report Review form that must be signed by the CD Administrator confirming review of the report prior to submittal to HUD. The Report Review form will be used for all reports, not just the SF-272 report. The CD Administrator review will include verifying the mathematical accuracy of the report.*

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2011

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#### SECTION III – FEDERAL FINDINGS AND QUESTIONED COSTS (cont.)

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***FINDING 2011-7 – CDBG – ENTITLEMENT GRANTS CLUSTER – CFDA No. 14.218 AND 14.253 (ARRA),  
HOME – HOUSING INVESTMENT PARTNERSHIP PROGRAM – CFDA No. 14.239***

**Criteria:**

The requirements for procurement are contained in the A-102 Common Rule, program legislation, Section 1605 of ARRA, 2 CFR part 176, Federal awarding agency regulations, and the terms and conditions of the award. To minimize the risk of errors, internal controls should be in place for all federal program compliance requirements, including preparing documentation evidencing that the county verified each vendor was not on the debarred and suspended vendor list found at [www.epls.gov](http://www.epls.gov)

**Condition:**

A sample of expenditures was tested for review of the debarred or suspended vendor list. The county could not provide documentation evidencing this review.

**Effect:**

Based on our conversations with Community Development department staff, we were told this procedure is being completed; however, we were unable to view file evidence of this.

**Recommendation:**

We recommend that the County establish written procedures and maintain documentation in each procurement file to show that this process is being completed.

**Questioned Costs:** Questioned costs are not able to be determined.

***Management's Response by Jeffrey Harris – Community Development Administrator***

*CD Division staff reviews a procured party is not on the [www.epls.gov](http://www.epls.gov) website. The contracts with the agency receiving grant funding also requests that the agency check the excluded parties list prior to making a decision as to whether a vendor is the lowest most responsible bidder. A finding of a vendor on the list is considered a non-responsible bidder.*

*CD Division staff acknowledges that while both the agency and the County staff are checking the website, no documented evidence is placed in the project file to support that the regulation has been followed. The CD Division Procurement Officer has made an additional step in the procurement review process to document that the [www.epls.gov](http://www.epls.gov) website has been reviewed and that the documentation is included in the project files.*

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2011

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#### SECTION III – FEDERAL FINDINGS AND QUESTIONED COSTS (cont.)

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##### ***FINDING 2011-8 – CDBG – ENTITLEMENT GRANTS CLUSTER – CFDA No. 14.218 AND 14.253 (ARRA)***

###### **Criteria:**

The A-102 Common Rule and Code of Federal Regulations require that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. To minimize the risk of errors, internal controls should be in place for all program compliance requirements, including the preparation and submission of required program reports, which should be reviewed and approved by a reasonable party other than the original preparer.

###### **Condition:**

The Community Development Specialist is preparing all reports, and there is not an independent review and approval before they are submitted to HUD, which is also noted in finding 2011-6.

###### **Effect:**

There could be errors in the reports that are not detected before being submitted. A footing error was identified in one of the reports, which is reported in a separate finding, 2011-6.

###### **Recommendation:**

We recommend that all future reports and schedules be reviewed prior to submission by someone other than the preparer.

###### **Questioned Costs:** None

###### ***Management's Response by Jeffrey Harris – Community Development Administrator***

*As mentioned in the response to finding 2011-6, the CD Division Specialist creating a report will submit a Report Review form and a draft of the report to the CD Division Administrator for review and approval of the report and signature authorizing the CD Specialist to submit the report to HUD. Any modifications or explanations will be noted on the Report Review form and corrections or updates completed and re-submitted to the CD Administrator until such time as the report is accepted and authorized by the CD Administrator to be submitted to HUD.*

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2011

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#### SECTION III – FEDERAL FINDINGS AND QUESTIONED COSTS (cont.)

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##### ***FINDING 2011-9 – HOME – HOUSING INVESTMENT PARTNERSHIP PROGRAM – CFDA No. 14.239***

###### **Criteria:**

Program match requirements described in 24 CFR sections 92.208 through 92.220, 92.222 and 92.508 require that each participating jurisdiction must provide eligible matching contributions of 25 percent of HOME funds drawn down during the fiscal year. Participating jurisdictions are required to maintain records, including individual project records and a running log, demonstrating compliance with the matching requirements, including the type and amount of contributions by project.

###### **Condition:**

The county included additional grant years in the 2011 County Match Report causing the match liability for the current federal fiscal year to be incorrectly reported.

###### **Effect:**

Incorrectly calculating the match requirement may result in errors which cause program noncompliance.

###### **Recommendation:**

We recommend that a review and approval be completed by someone other than the preparer of all reports before they are submitted to HUD.

###### **Questioned Costs:** None

##### ***Management's Response by Jeffrey Harris – Community Development Administrator***

*CD Division staff reported match for all projects that had expended funding in the 2011 calendar year. CD Division staff reported match recorded for the project across the lifetime of the project. The match that should have been reported is the portion of match that the sub-recipient generated during the calendar year of 2011. For example, a sub-recipient expending grant funding between two calendar years reported a portion of their match in 2010 that should not be listed on the HOME match report for 2011 calendar year. CD Division staff reviewed the HOME Match report with external auditor staff during the audit. It was determined that the report must be revised, reviewed by the CD Administrator, and a revision will be sent to HUD. To prevent this error from reoccurring, the CD Division Staff will reference the HOME Match report instructions to verify what information must be reported.*

PAMELA PALMER  
County Auditor

JAMES BERNIER, CPA,  
CPFO  
Financial Reporting  
Manager/Chief Deputy  
Auditor

OFFICE OF  
**THE COUNTY AUDITOR**

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
November 30, 2011

**FINDING 2010-5 – CDBG – ENTITLEMENT GRANTS CLUSTER, CFDA NO. 14.218 AND 14.253;  
HOUSING INVESTMENT PARTNERSHIP PROGRAM (HOME), CFDA NO. 14.239; HOMELESSNESS  
PREVENTION AND RAPID RE-HOUSING PROGRAM, CFDA NO.14.257**

**Criteria:**

Payroll expenditures charged to federal grants must be in accordance with the requirements of Circular A-87, *Cost Principles of State and Local Governments*. Per Circular A-87, when employees work solely on a single federal award, the charges for those employees must be supported by semi-annual certifications signed by the employee or supervisory official, which state that the employee worked solely on that program for the period covered by the certification. When employees work on multiple activities, grants, or cost objectives, the payroll expenditures charged to the grant must be supported by personnel activity reports which reflect an after the fact distribution of the actual activity of each employee. These reports must account for the total activity for which each employee is compensated, must be prepared at least monthly and coincide with one or more pay periods, and must be signed by the employees. Budgeted allocations may not be used to allocate salary costs to federal grants unless the County performs at least quarterly time studies to determine that the budgeted allocations coincide with actual activity. If the actual activity differs from the budgeted allocation by ten percent or more, the County must make adjustments to its payroll cost allocations.

**Condition:**

Currently, payroll expenditures are allocated to the various federal grants based upon set percentages. The County does not validate these percentages with timecards, personnel activity reports, or time studies.

**Effect:**

It is possible that the payroll expenditures allocated to the grant are not reflective of the actual time spent on grant activities.

**Recommendation:**

We recommend that the County review its policies and procedures by which it is allocating payroll expenditures to the various federal grants to ensure they are compliant with the requirements noted in Circular A-87.

**Questioned Costs:**

Questioned costs are not able to be determined.

**County of McHenry, Illinois**

Summary Schedule of Prior Audit Findings

November 30, 2011

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**FINDING 2010-5 – CDBG – ENTITLEMENT GRANTS CLUSTER, CFDA NO. 14.218 AND 14.253;  
HOUSING INVESTMENT PARTNERSHIP PROGRAM (HOME), CFDA NO. 14.239; HOMELESSNESS  
PREVENTION AND RAPID RE-HOUSING PROGRAM, CFDA NO.14.257 (Continued)**

**Corrective Action Taken During Fiscal Year 2011**

As of March 2012, the Community Development Division (Division) has been working with Administration on modifying the ADP (payroll) system for reporting actual time spent on each grant. Currently, there are security issues that are being worked through that are preventing the system from being utilized for this purpose. As of April 2<sup>nd</sup>, the Division will keep track of all of their time spent on paper until the ADP system becomes available. Quarterly time studies will be completed to determine that the budgeted allocations coincide with actual activity if the ADP system is not available for use in the next couple months. Once the system becomes available the Division will input all time recorded from April 2<sup>nd</sup> forward into the ADP system. Currently, all Division employees work on multiple activities, so semiannual certifications do not apply.

**FINDING 2010-6 – CDBG – ENTITLEMENT GRANTS CLUSTER – CFDA NO. 14.218 AND 14.253**

**Criteria and Conditions:**

As part of the process of monitoring its subrecipients, the County should ensure that those subrecipients expending \$500,000 or more in federal awards during the subrecipients' fiscal year have met the audit requirements of Circular A-133. The County should ensure subrecipient audits are completed within 9 months of the subrecipients' year end, should issue management decisions on audit findings within 6 months after receiving the subrecipients' audit reports, and ensure that subrecipients take timely and appropriate corrective action on all audit findings. During our testing of subrecipient monitoring, it was found that the County had not yet received two subrecipient audit reports who had fiscal years ended June 30, 2010 and two subrecipient audit reports who had fiscal years ended April 30, 2010. This is past the nine month deadline required. Also, as these reports had not yet been received, the county has not issued any management decisions on findings (if any were reported) or ensured timely and appropriate corrective action was taken on findings (if any were reported).

Also, the American Reinvestment and Recovery Act (ARRA) required additional subrecipient monitoring requirements. Under ARRA, the County must identify to each subrecipient both at the time of subaward to the subrecipient as well as at the time of disbursement of funds to the subrecipient, the federal award number, CFDA number, and the amount of ARRA funds (either awarded or disbursed). The County provided this information to the subrecipient at the time of award, but not at the time of disbursement of funds.

**Effect:**

It is possible that subrecipient audits include findings which have not yet been addressed by the County. Also, subrecipients were not made aware that they were receiving ARRA funds at the time of disbursement.

**Recommendation:**

We recommend that the County ensure that subrecipient audits are collected in a timely manner and that subrecipient findings and corrective actions are also timely addressed. We also recommend that the County ensure that subrecipients are notified at the time of disbursement of the required information noted above for ARRA funds.

**Questioned Costs:**

None

**FINDING 2010-6 – CDBG – ENTITLEMENT GRANTS CLUSTER – CFDA NO. 14.218 AND 14.253  
(Continued)**

**Corrective Action Taken During Fiscal Year 2011**

For the two subrecipients identified, a recent audit was received with an application package; however the subrecipient did not submit it separately as part of a previous project close-out. The other subrecipient is currently a troubled organization that has refused to complete a required signed-audit. The Internal Audit Division has assisted the Division to provide financial condition/operation analysis of this organization, which contributed to the Division's current findings. Since the County's audit the subrecipient has closed their doors.

The Internal Audit Division (IAD) has noted that the County has requested subrecipient audits as part of the 2012 funding round application process. In addition, the IAD noted a few subrecipients that received funds in 2011 that did not have a current audit on file at the County. Going forward, to ensure that audits are collected and reviewed in a timely manner, the Division requires the most recent audit document available at the time of application, contracting, and closeout and all subrecipients are notified of Division's audit requirements. Furthermore, the Division has created a filing system and data-base that monitors organizations that have open projects and/or closed projects from the last five years and on a quarterly basis reviews the files to determine if required audits have been received. The IAD has assisted the Division in determining a proper review process of subrecipient audits. Additionally, a majority of County subrecipients do not require A-133 audits as they do not receive the required threshold of federal funds.

The Division contracted ARRA funds with one subrecipient, the Village of Wonder Lake. At the time of contract award, the Division expressly noted that the funding was made available through ARRA and that per the regulations; signage at the work site was required noting sponsorship. No other disbursements have been made since the external audit. In addition, the Internal Audit Division verified that on March 27, 2012 the Village of Wonder Lake was notified in a final monitoring letter the federal award number, CFDA number, and the amount of ARRA funds awarded and disbursed.

**FINDING 2010-7 – CDBG – ENTITLEMENT GRANTS CLUSTER – CFDA NO. 14.218 AND 14.253**

**Criteria and Conditions:**

For each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002. An error was found in the report submitted by the County for the Neighborhood Stabilization Program as the County had double counted a page of contracts supporting the amounts on the report.

**Effect:**

On the HUD 60002 report, the line item number 1(B) under Part II, Contracts awarded was overstated by \$229,817.

**Recommendation:**

We recommend that the County ensure all reports are reviewed prior to submission to HUD to ensure reports are correctly stated. Report reviewers should review both the report and supporting schedules used to create the report as part of the process to ensure the reports were prepared accurately.

**Questioned Costs:**

There are no questioned costs as this is an error in reporting only.

**FINDING 2010-7 – CDBG – ENTITLEMENT GRANTS CLUSTER – CFDA NO. 14.218 AND 14.253  
(Continued)**

**Corrective Action Taken During Fiscal Year 2011**

According to the Division, all reports and schedules are reviewed by Jeffrey Harris, the Community Development Administrator, and Dennis Sandquist, Planning and Development Director, before being posted and up-loaded to the HUD reporting sites. The Internal Audit Division (IAD) reviewed a sample of reports during the end of FY11 & first quarter of FY12 and noted a few accounting errors and no documented independent review. The IAD will work with the Division staff to correct noted errors and to establish proper report preparation practices to ensure all related support is kept with reports and review is documented.

PAMELA PALMER  
County Auditor

JAMES BERNIER, CPA,  
CPFO  
Financial Reporting  
Manager/Chief Deputy  
Auditor

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CORRECTIVE ACTION PLAN  
November 30, 2011

**FINDING 2011-1 – PAYROLL CHANGE HISTORY**

Generally, the county maintains good segregation of duties between those that are responsible for maintenance of data within the payroll system and those that are responsible for processing payroll. However, when changes are made to data within the payroll system by employees within Human Resources, they periodically utilize a function within the ADP module defined as a “Change History” option. Use of this option reduces the time and effort needed to make the requested changes, but it also lacks the ability to verify that these changes are supportable and legitimate. All changes to the payroll system should be independently reviewed, and while others not using this function are subject to review through the use of verification reports, those made with the change history function cannot be reviewed. This results in an internal control weakness.

We recommend the county either work with their payroll vendor to eliminate this function as an option, or determine if a report could be generated that would allow for an independent review.

*Current Year Status*

Since this was first reported to you, the county has worked with their payroll vendor and determined that eliminating this function is not a viable option. Further, it was determined that currently, an edit report to track changes made using this option is also not available. We therefore completed some additional testing procedures and also reviewed the recently completed county internal audit of the Human Resource’s (HR) Department and their related internal controls. With the understanding that this option will remain available to pre-determined users of the payroll system, we believe it is important to implement as many controls around this function as possible. Accordingly, toward year-end, this function has been limited to two employees within the HR department so as to restrict this option to just one primary user and a back-up at all times. The Director of Human Resources believes that this is critical to carry out the responsibilities and functions of his department. We agree that limiting this function to two employees will help to reduce the associated risks until an edit report can be developed and/or another option is made available.

In regards to accessing user profiles, all employees within HR have recently been restricted so that they can no longer make changes to their own profiles. We observed this and are confident this is now in place. However, even though this change has been made, HR employees still have the rights within the payroll system to change their access ability, thereby unlocking this feature, and once again having the ability to make changes to their own profiles. Therefore, this continues to present associated risks to the county. We recommend the county establish security over this area to permanently prevent users from being able to make changes to their own profiles.

**FINDING 2011-1 – PAYROLL CHANGE HISTORY (Continued)**

**Management’s Response by Robert Ivetic – Human Resources Director**

In accordance with the recommendation of the external auditors, the Human Resource Office will contact ADP ( HRIS/Payroll vendor) to explore the elimination of the function or the generation of a usage report which can be used for independent review.

In accordance with the recommendation of the external auditors, the Human Resource Office will contact ADP (HRIS/Payroll vendor) to explore, if ADP can program the system so that HR users cannot make changes to their own profiles (permanently blocked internal to the system) or explore County internal security measures to accomplish the same.

**FINDING 2011-2 – VENDOR APPROVAL**

The ability to create new vendors is appropriately centralized within the county, but there should also be a formalized and documented control to assure the validity of all new vendors. The County Auditor’s Office and the Purchasing Department are in the process of developing a vendor maintenance procedural guide. Inclusive in this will be a formal policy on how new vendors and changes to existing vendors are processed, including determining the validity of the vendor and how to facilitate an annual review of the vendor system.

**Management’s Response by Pamela Palmer – County Auditor**

In fiscal year 2010, the County Auditor’s Office and the Purchasing Department worked jointly on decreasing the number of active vendors from approximately 16,000 to fewer than 7,500. During fiscal year 2011, the refinement of the list continued based upon payment activity (date last active), the correction of vendor types in the financial system, and the gathering of updated required documents. This effort led to a further reduction in active vendors to approximately 6,200 and valuable information was learned to assist with writing the guidelines of vendor approval. This Vendor Maintenance Policy will be written and completed during the second quarter in 2012, with training provided to all applicable users of the vendor maintenance process in the financial software system. Contents of the policy will include vendor application, approval, data entry, and user responsibilities for continuing maintenance. This has been a time consuming task, but one in which the time spent will result in a stronger vendor database.

**FINDING 2011-3 – DECENTRALIZED BANK ACCOUNTS**

A checking account maintained by the County Clerk has an unresolved variance between the bank balance and the book balance. The bank account has been reconciled monthly and at year-end, but the variance continues to be a part of the reconciliation. All reconciling items should be supportable and consist of known items. We have determined that the variance is a result of funds held within the bank account that are unknown as to who is the recipient. Since the account is an agency fund, which is fiduciary in nature, all funds being held should be accounted for as to ownership. It was evident from our testing procedures that significant effort has occurred and progress made with identifying ownership of the majority of the funds. The County Clerk’s office has identified approximately \$19,000 of the \$22,000 amount in question. In addition, reconciliations are occurring monthly. We recommend that the County Clerk’s office request a State Attorney’s opinion on how the remaining unresolved funds should be addressed, so that the account has no unknown, unsupported items that are being used during the process of verifying funds that remain in the account.

**FINDING 2011-3 – DECENTRALIZED BANK ACCOUNTS (Continued)**

**Management's Response by Katherine C. Schultz - McHenry County Clerk**

Regarding the unresolved difference of \$2,793.18 in the County Clerk's redemption account; a letter was sent to the McHenry County State's Attorney's office, on April 26, 2012 asking for an opinion in regards to the possibility of turning said amount over to the County's General Fund. As soon as a response is received, the appropriate action will be taken.

**FINDING 2011-4 – COMPLIANCE WITH PURCHASING ORDINANCE**

During the 2009 audit, we tested purchases made for compliance with the county's purchasing ordinance and Illinois State Statutes. Four out of the fifteen purchases tested did not utilize centralized purchasing, did not have a purchase order, and quotes were not obtained as required by S5-103 of the McHenry County purchasing ordinance. It is our understanding that these purchases should have used purchasing as all of them exceeded \$500 and originated in departments required to adhere to the purchasing ordinance. Three of the invoices originated in the County Health department and one originated in the County Sheriff department. Failure to utilize centralized purchasing not only results in non-compliance with county policies, but could result in lost saving opportunities often obtained through central purchasing efforts.

During the 2010 audit, we again noted inconsistency in compliance with the county purchasing ordinance. In response, we recommended that the County consider implementing certain best practices in regards to purchase orders to standardize procedures throughout the County. These recommendations included:

- > An approval trail should be required for creation, modification, and cancellation of purchase orders. There should be clear guidance on when approval is required (dollar amount threshold) and who should be designated with approval authority. Guidance should also be given to County staff on when a purchase order should be created, modified or cancelled.
- > In addition to requiring an approval trail, the County should identify the types of documents that should be maintained for each purchase order (such as bid results, contracts, board approval, etc). The County policy should also indicate which department has responsibility for maintaining these documents.
- > Guidance should be given to employees on the dollar amounts to be assigned to a purchase order. For example, should the purchase order be issued for the amount of an invoice, the amount of the project, or the amount to be spent with a vendor for the fiscal year.
- > To monitor the usage of the purchase order system, the County could consider implementing a tracking mechanism to determine the volume and frequency of purchase orders. A useful report may include the number and dollar amount of purchase orders created, modified and cancelled by department during a given period.
- > The County should develop a purchasing manual which would provide instruction to employees on how to navigate the purchasing process within the County. Such a document would provide county staff greater understanding and consistency in implementing the legal requirements contained in the purchasing ordinance on a daily basis.

**FINDING 2011-4 – COMPLIANCE WITH PURCHASING ORDINANCE (Continued)**

*Current Year Status*

For 2011, we once again tested paid invoices for compliance with the county's purchasing ordinance. For the items sampled, we did not note any exceptions to the county's purchasing ordinance and Illinois State Statutes. For the items tested, those that were required to utilize purchasing did so, and purchase orders and quotes were obtained when necessary. **This portion of the comment will be removed next year. No formal response is required for this portion of the comment.**

We also reviewed any changes made to the procurement process that may have implemented some or all of the best practices noted above. The Purchasing Department developed a rough draft version of a working document, titled "Purchasing Procedures". We commend purchasing for taking this first step in developing this document which can be utilized by other departments. Development of this document addresses our recommendation above regarding the development of a purchasing manual. We recommend Purchasing distribute this document to all county departments, or make it readily available on their website, and provide training as well. We also recommend that purchasing make it an initiative to continually update and enhance this document in the future, incorporating additional best practices we noted above.

From our testing this year, we also noted two additional areas where improvements to the purchasing process could be made:

- > For certain areas where services or goods are commonly procured, the county has entered into cooperative purchasing agreements with vendors. The concept behind these agreements is to take advantage of pooled purchasing efforts with other counties to secure more favorable pricing. While these cooperative purchasing agreements are commonly used, are advantageous to McHenry and other counties throughout the state, and specifically allowed within Article 10 of the Purchasing Ordinance, they do not always guarantee the best price or desired products. We recommend purchasing periodically seek additional competitive bids for these types of purchases to assure that the best price and product is still being obtained when compared to the cooperative purchasing agreements.
- > For items purchased in excess of \$500, there are numerous exceptions as to when the county's purchasing ordinance does not need to be followed. Some elected officials departments are exempt, while others are not. If there is a separate board that governs the department, use of the Purchasing Department is optional. Many other exceptions exist as well. To clarify these situations, provide training, and to serve as an internal audit tool so as to ensure compliance, we recommend a set of guidelines or a flow-chart type of approach be developed to clarify when the Purchasing Department and ordinance would apply, and when it would not. This document should be distributed to other departments and training provided.

**Management's Response by Cathy Link – Purchasing Director**

The Purchasing Ordinance will be included in the annual budget manual as produced by County Administration. As per the County's desire to move toward paperless functions, the Purchasing Procedure Manual will be completed and available on the County's Intranet (Sharepoint) by September, 2012. Once completed, an email will be sent to all department heads and IFMS users notifying them of the availability to use this tool on line. Purchasing staff will offer department heads the opportunity to schedule individual staff training on a regular basis until the department staff has obtained working knowledge of the manual and the system. As always, Purchasing staff will address any concerns throughout the fiscal year(s).

**FINDING 2011-4 – COMPLIANCE WITH PURCHASING ORDINANCE (Continued)**

**Management’s Response by Cathy Link – Purchasing Director (Continued)**

For clarification purposes, a cooperative bid or proposal, in procurement terminology can be defined as below: (Definition provided by the National Institute of Governmental Purchasing –NIGP): (1) The action taken when two or more entities combine their requirements to obtain advantages of volume purchases including administrative savings and other benefits. (2) A variety of arrangements whereby two or more public procurement units purchase from the same supplier or multiple suppliers using a single Bid or RFP. (3) Cooperative procurement efforts may result in contracts that other entities may “piggyback”. For comparison purposes, the Purchasing Department does regularly send out solicitations for items that may be offered on a cooperative purchasing agreement in addition to reviewing the agreement.

The Purchasing Department is working with County Administration to develop a summary guideline for determining when purchasing should be utilized per State Statute. This information is already available in the Purchasing Ordinance; however, we feel it would be better understood as a summary. This will be completed by May, 2012.

**FINDING 2011-5 – CDBG – ENTITLEMENT GRANTS CLUSTER, CFDA NO. 14.218 AND 14.253 (ARRA); HOUSING INVESTMENT PARTNERSHIP PROGRAM (HOME), CFDA NO. 14.239; HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM, CFDA NO.14.257 (ARRA); PUBLIC HEALTH EMERGENCY PREPAREDNESS, CFDA NO. 93.069**

**Criteria:**

Payroll expenditures charged to federal grants must be in accordance with the requirements of Circular A-87, *Cost Principles of State and Local Governments*. Per Circular A-87, when employees work solely on a single federal award, the charges for those employees must be supported by semi-annual certifications signed by the employee or supervisory official, which state that the employee worked solely on that program for the period covered by the certification. When employees work on multiple activities, grants, or cost objectives, the payroll expenditures charged to the grant must be supported by personnel activity reports which reflect an after the fact distribution of the actual activity of each employee. These reports must account for the total activity for which each employee is compensated, must be prepared at least monthly and coincide with one or more pay periods, and must be signed by the employees. Budgeted allocations may not be used to allocate salary costs to federal grants unless the County performs at least quarterly time studies to determine that the budgeted allocations coincide with actual activity. If the actual activity differs from the budgeted allocation by ten percent or more, the County must make adjustments to its payroll cost allocations.

**Condition:**

Currently, payroll expenditures are allocated to the various federal grants based upon set percentages. The County does not validate these percentages with timecards, personnel activity reports, or time studies.

**Effect:**

It is possible that the payroll expenditures allocated to the grant are not reflective of the actual time spent on grant activities.

**FINDING 2011-5 – CDBG – ENTITLEMENT GRANTS CLUSTER, CFDA NO. 14.218 AND 14.253 (ARRA); HOUSING INVESTMENT PARTNERSHIP PROGRAM (HOME), CFDA NO. 14.239; HOMELESSNESS PREVENTION AND RAPID RE-HOUSING PROGRAM, CFDA NO.14.257 (ARRA); PUBLIC HEALTH EMERGENCY PREPAREDNESS, CFDA NO. 93.069 (Continued)**

**Recommendation:**

We recommend that the County review its policies and procedures by which it is allocating payroll expenditures to the various federal grants to ensure they are compliant with the requirements noted in Circular A-87.

**Questioned Costs:** Questioned costs are not able to be determined.

**Management’s Response by Jeffrey Harris – Community Development Administrator**

We acknowledge the finding for 2011. As of April 2012, Community Development (CD) Division staff is now submitting a weekly timesheet to the CD Administrator for entry into the County’s payroll tracking system through ADP. Payroll draws processed through the Housing and Urban Development’s Integrated Disbursement Information System (IDIS) and Disaster Relief Grant Reporting (DRGR) software systems are attributable to actual hours spent on each grant and not an estimated percentage of time.

**Management’s Response by Pat McNulty – Public Health Administrator**

For the public health emergency preparedness program, all payroll costs charged to the program for employees that worked on multiple activities were properly supported by quarterly time studies, as required by Circular A-87. However, for one employee that worked solely on the public health emergency preparedness program, the required semi-annual certifications, signed by the employee or supervisory official, which state that the employee worked solely on that program for the period covered by the certification, were not completed. Accordingly, we believe that there are no questioned costs related to this grant program. We acknowledge the requirement to complete the semi-annual certification for employees that work solely on a single federal award. As a corrective action, we have created a new procedure to ensure that semi-annual certifications or quarterly time studies, as applicable, are completed for all employees that work on grants.

**FINDING 2011-6 – CDBG – ENTITLEMENT GRANTS CLUSTER – CFDA NO. 14.218 AND 14.253 (ARRA)**

**Criteria:**

Program requirements described in 24 CFR part 570 require the submission of SF-272 Federal Cash Transactions Report on a quarterly basis.

**Conditions:**

The Federal Cash Transactions Reports for all quarters of 2011 were not mathematically accurate. The County is entering the beginning and ending balances per bank statements, the total receipts per HUD reports, and the gross disbursements per the bank statements withdrawals. The difference (usually caused by timing issues) is not noted on the report, thereby causing the report to not foot. Instructions for line item 11j state that the total amount of cash on hand at the end of the reporting period should be total cash available less gross disbursements plus/minus any adjustments.

In addition, we noted that the reports are not reviewed by someone other than the preparer prior to submission.

**Effect:**

The report is not an accurate display of the account activity during each quarter.

**Recommendation:**

We recommend that County update the adjustments line (line i on the form) to reflect the differences and include an explanation of the items in the remarks section of the report. Also, a secondary review is recommended prior to submittal by someone other than the original preparer.

**Questioned Costs:** Questioned costs are not able to be determined.

**Management's Response by Jeffrey Harris – Community Development Administrator**

Historically, CD Division staff procedure guidelines instructed staff to use the beginning and ending balance of the monthly bank statements and a PR05 draw report from the IDIS system to complete the SF-272 report. During an internal audit that occurred just prior to the external audit, it was discovered that the report does not foot because there is a delay in time between when a transaction is entered into the IDIS system and when the County bank account shows the funds deposited. The County Auditor's office has recommended that CD Division staff use the bank statement reconciliation created by the County Treasurer's office to complete the SF-272 rather than the bank statements. CD Division staff has requested the bank reconciliations on a monthly basis in addition to the bank statements. A corrected report will be created, and the CD Administrator will review the report with the CD Specialist prior to re-submitting the revised report to Region V, U.S. Department of Housing and Urban Development (HUD). CD Division has created a Report Review form that must be signed by the CD Administrator confirming review of the report prior to submittal to HUD. The Report Review form will be used for all reports, not just the SF-272 report. The CD Administrator review will include verifying the mathematical accuracy of the report.

**FINDING 2011-7 – CDBG – ENTITLEMENT GRANTS CLUSTER – CFDA NO. 14.218 AND 14.253  
(ARRA), HOME – HOUSING INVESTMENT PARTNERSHIP PROGRAM – CFDA NO. 14.239**

**Criteria:**

The requirements for procurement are contained in the A-102 Common Rule, program legislation, Section 1605 of ARRA, 2 CFR part 176, Federal awarding agency regulations, and the terms and conditions of the award. To minimize the risk of errors, internal controls should be in place for all federal program compliance requirements, including preparing documentation evidencing that the county verified each vendor was not on the debarred and suspended vendor list found at [www.epls.gov](http://www.epls.gov).

**Condition:**

A sample of expenditures was tested for review of the debarred or suspended vendor list. The county could not provide documentation evidencing this review.

**Effect:**

Based on our conversations with Community Development department staff, we were told this procedure is being completed; however, we were unable to view file evidence of this.

**Recommendation:**

We recommend that the County establish written procedures and maintain documentation in each procurement file to show that this process is being completed.

**Questioned Costs:** Questioned costs are not able to be determined.

**Management's Response by Jeffrey Harris – Community Development Administrator**

CD Division staff reviews a procured party is not on the [www.epls.gov](http://www.epls.gov) website. The contracts with the agency receiving grant funding also requests that the agency check the excluded parties list prior to making a decision as to whether a vendor is the lowest most responsible bidder. A finding of a vendor on the list is considered a non-responsible bidder.

CD Division staff acknowledges that while both the agency and the County staff are checking the website, no documented evidence is placed in the project file to support that the regulation has been followed. The CD Division Procurement Officer has made an additional step in the procurement review process to document that the [www.epls.gov](http://www.epls.gov) website has been reviewed and that the documentation is included in the project files.

**FINDING 2011-8 – CDBG – ENTITLEMENT GRANTS CLUSTER – CFDA NO. 14.218 AND 14.253  
(ARRA)**

**Criteria:**

The A-102 Common Rule and Code of Federal Regulations require that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. To minimize the risk of errors, internal controls should be in place for all program compliance requirements, including the preparation and submission of required program reports, which should be reviewed and approved by a reasonable party other than the original preparer.

**Condition:**

The Community Development Specialist is preparing all reports, and there is not an independent review and approval before they are submitted to HUD, which is also noted in finding 2011-6.

**Effect:**

There could be errors in the reports that are not detected before being submitted. A footing error was identified in one of the reports, which is reported in a separate finding, 2011-6.

**Recommendation:**

We recommend that all future reports and schedules be reviewed prior to submission by someone other than the preparer.

**Questioned Costs:** None

**Management's Response by Jeffrey Harris – Community Development Administrator**

As mentioned in the response to finding 2011-6, the CD Division Specialist creating a report will submit a Report Review form and a draft of the report to the CD Division Administrator for review and approval of the report and signature authorizing the CD Specialist to submit the report to HUD. Any modifications or explanations will be noted on the Report Review form and corrections or updates completed and re-submitted to the CD Administrator until such time as the report is accepted and authorized by the CD Administrator to be submitted to HUD.

**FINDING 2011-9 – HOME – HOUSING INVESTMENT PARTNERSHIP PROGRAM – CFDA NO. 14.239**

**Criteria:**

Program match requirements described in 24 CFR sections 92.208 through 92.220, 92.222 and 92.508 require that each participating jurisdiction must provide eligible matching contributions of 25 percent of HOME funds drawn down during the fiscal year. Participating jurisdictions are required to maintain records, including individual project records and a running log, demonstrating compliance with the matching requirements, including the type and amount of contributions by project.

**Condition:**

The county included additional grant years in the 2011 County Match Report causing the match liability for the current federal fiscal year to be incorrectly reported.

**Effect:**

Incorrectly calculating the match requirement may result in errors which cause program noncompliance.

**Recommendation:**

We recommend that a review and approval be completed by someone other than the preparer of all reports before they are submitted to HUD.

**Questioned Costs:** None

**Management's Response by Jeffrey Harris – Community Development Administrator**

CD Division staff reported match for all projects that had expended funding in the 2011 calendar year. CD Division staff reported match recorded for the project across the lifetime of the project. The match that should have been reported is the portion of match that the sub-recipient generated during the calendar year of 2011. For example, a sub-recipient expending grant funding between two calendar years reported a portion of their match in 2010 that should not be listed on the HOME match report for 2011 calendar year. CD Division staff reviewed the HOME Match report with external auditor staff during the audit. It was determined that the report must be revised, reviewed by the CD Administrator, and a revision will be sent to HUD. To prevent this error from reoccurring, the CD Division Staff will reference the HOME Match report instructions to verify what information must be reported.