

**COUNTY OF MCHENRY**

REPORT ON FEDERAL AWARDS

For the Year Ended November 30, 2010

# COUNTY OF MCHENRY

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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, 2010, which collectively comprise the County of McHenry's basic financial statements and have issued our report thereon dated April 29, 2011. Our report was modified to include 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***

In planning and performing our audit, we considered the County of McHenry's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 significant deficiencies are items 2010-1, 2010-2, 2010-3, and 2010-4. 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 April 29, 2011.

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, 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  
April 29, 2011

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, 2010. 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, 2010. 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 2010-5, 2010-6, and 2010-7.

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 over compliance 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 2010-5, 2010-6, and 2010-7. *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, 2010, and have issued our report thereon dated April 29, 2011. 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic 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 them.

This report is intended solely for the information and use of the County of McHenry's management, 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  
July 20, 2011, except for the schedule of expenditures of  
federal awards, as to which the date is April 29, 2011

**County of McHenry, Illinois**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended November 30, 2010**

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 - 2010)	10.557	011GL340000	\$ 599,675	\$ 379,407
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC - 2011)	10.557	111GM340000	613,700	228,395
Special Supplemental Nutrition Program for Women, Infants, and Children (Noncash Food Instruments - 2010)	10.557	n/a	-	1,932,811
Special Supplemental Nutrition Program for Women, Infants, and Children (Noncash Food Instruments - 2011)	10.557	n/a	-	778,835
		10.557 - subtotal	<u>1,213,375</u>	<u>3,319,448</u>
WIC Farmers' Market Nutrition Program - 2011	10.572	111GM340000	<u>1,000</u>	<u>55</u>
Passed through Illinois Department of Public Health				
Summer Food Service Program for Children - 2010	10.559	n/a	<u>200</u>	<u>200</u>
<b>Total U.S. Department of Agriculture</b>			<b>1,214,575</b>	<b>3,319,703</b>
Department of Commerce				
Passed through Illinois Emergency Management Agency				
Public Safety Interoperable Communications Grant Program	11.555	PSICMCHE	4,844,601	819,562
<b>Total Department of Commerce</b>			<b>4,844,601</b>	<b>819,562</b>

See accompanying notes to schedule of expenditures of federal awards

**County of McHenry, Illinois**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended November 30, 2010**

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	\$ 352,489
Community Development Block Grant (CDBG) - 2008	14.218	*	@ B-08-UC-17-0007	1,301,979	507,157
Community Development Block Grant (CDBG) - 2009	14.218	*	@ B-09-UC-17-0007	1,320,206	987,914
Community Development Block Grant (CDBG) - 2010	14.218	*	@ B-10-UC-17-0007	1,045,438	556,080
Community Development Block Grant (CDBG) - Program income	14.218	*	@ n/a	-	76,142
Neighborhood Stabilization Program (NSP)	14.218	*	@ B-08-UN-17-0005	3,085,695	1,957,657
Neighborhood Stabilization Program (NSP) - Program income	14.218	*	@ n/a	-	323,947
			14.218 - subtotal	<u>8,092,609</u>	<u>4,761,386</u>
Housing Investment Partnership Program (HOME)					
2005	14.239	*	M-05-MC-17-0219	551,904	5,168
2006	14.239	*	M-06-UC-17-0219	508,973	169,723
2007	14.239	*	M-07-UC-17-0219	509,595	391,274
2008	14.239	*	M-08-UC-17-0219	483,766	133,268
Program income	14.239	*	n/a	-	10,350
			14.239 - subtotal	<u>2,054,238</u>	<u>709,783</u>
ARRA - Community Development Block Grant (CDBG-R)	14.253-ARRA	*	@ B-09-UY-17-0007	<u>353,648</u>	<u>162,005</u>
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257-ARRA	*	S-09-UY-17-0007	<u>540,732</u>	<u>203,402</u>
<b>Total U.S. Department of Housing and Urban Development</b>				<u><u>11,041,227</u></u>	<u><u>5,836,576</u></u>

See accompanying notes to schedule of expenditures of federal awards

**County of McHenry, Illinois**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended November 30, 2010**

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	2010-74	\$ <u>15,000</u>	\$ <u>15,000</u>
Bureau of Justice Assistance				
State Criminal Alien Assistance Program (SCAAP) - 2007	16.606	n/a	144,931	6,750
State Criminal Alien Assistance Program (SCAAP) - 2008	16.606	n/a	<u>237,291</u>	<u>11,688</u>
		16.606 - subtotal	<u>382,222</u>	<u>18,438</u>
Office of Community Oriented Policing Services				
Public Safety Partnership and Community Policing Grants (SEECOM #1)	16.710	2008CKWX0198	<u>427,466</u>	<u>871</u>
Passed through Illinois Criminal Justice Information Authority				
Edward Byrne Memorial Justice Assistance Grant Program - 2010	16.738	407024	<u>83,394</u>	<u>83,394</u>
<b>Total U.S. Department of Justice</b>			<b><u>908,082</u></b>	<b><u>117,703</u></b>
U.S. Department of Labor				
Passed through Illinois Department of Commerce and Economic Opportunity				
Workforce Investment Act				
Trade Adjustment Assistance	17.245	08-661002	332,243	91,207
Trade Adjustment Assistance	17.245	09-661002	195,900	75,975
Trade Adjustment Assistance	17.245	10-661002	<u>16,470</u>	<u>3,007</u>
		17.245 - subtotal	<u>544,613</u>	<u>170,189</u>

See accompanying notes to schedule of expenditures of federal awards

**County of McHenry, Illinois**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended November 30, 2010**

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 - 2008	17.258	@	08-681002	\$ 327,985	\$ 24,523
WIA Adult Program - (Program Income - 2009)	17.258	@	n/a	-	602
WIA Adult Program - (Program Income - 2010)	17.258	@	n/a	-	213
WIA Adult Program - 2009	17.258	@	09-681002	505,670	348,677
WIA Adult Program - (10% Statewide Local Incentive)	17.258	@	08-672002	3,058	2,353
WIA Adult Program - 2010	17.258	@	10-681002	<u>463,573</u>	<u>114,533</u>
			17.258 - subtotal	<u>1,300,286</u>	<u>490,901</u>
ARRA Funds - WIA Adult Program	17.258-ARRA	@	08-761002	<u>333,671</u>	<u>37,336</u>
WIA Youth Activities - 2008	17.259	@	08-681002	392,601	278
WIA Youth Activities - (Program Income - 2009)	17.259	@	n/a	-	724
WIA Youth Activities - (Program Income - 2010)	17.259	@	n/a	-	314
WIA Youth Activities - 2009	17.259	@	09-681002	608,305	355,168
WIA Youth Activities - (10% Statewide Local Incentive)	17.259	@	08-672002	3,678	2,831
WIA Youth Activities - 2010	17.259	@	10-681002	<u>684,233</u>	<u>178,164</u>
			17.259 - subtotal	<u>1,688,817</u>	<u>537,479</u>
ARRA Funds - WIA Youth Activities	17.259-ARRA	@	08-762002	<u>592,093</u>	<u>1,129</u>

See accompanying notes to schedule of expenditures of federal awards

**County of McHenry, Illinois**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended November 30, 2010**

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 Dislocated Workers - 2008	17.260	@	08-681002	\$ 669,286	\$ 69,958
WIA Dislocated Workers - (Program Income - 2009)	17.260	@	n/a	-	1,182
WIA Dislocated Workers - 2009	17.260	@	09-681002	992,651	711,571
WIA Dislocated Workers - (10% Statewide Local Incentive)	17.260	@	08-672002	6,002	4,619
WIA Dislocated Workers - (TAA-NEG Dual Enrollment)	17.260	@	09-641202	80,000	42,936
WIA Dislocated Workers - (Trade Case Management)	17.260	@	09-653002	<u>50,000</u>	<u>50,000</u>
			17.260 - subtotal	<u>1,797,939</u>	<u>880,266</u>
ARRA Funds - WIA Dislocated Workers	17.260-ARRA	@	08-761002	<u>1,125,554</u>	<u>457,457</u>
WIA Dislocated Workers - (Program Income - 2010)	17.278	@	n/a	-	447
WIA Dislocated Workers - 2010	17.278	@	10-681002	973,585	280,938
WIA Dislocated Workers - (Trade Case Management)	17.278	@	10-653002	<u>250,000</u>	<u>77,788</u>
			17.278 - subtotal	<u>1,223,585</u>	<u>359,173</u>
<b>Total U.S. Department of Labor</b>				<u><u>8,606,558</u></u>	<u><u>2,933,930</u></u>

See accompanying notes to schedule of expenditures of federal awards

**County of McHenry, Illinois**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended November 30, 2010**

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 - (Holiday Mobilization - 2010)	20.600	@	AL0-0056-547	\$ 40,399	\$ 37,492
State and Community Highway Safety - (STEP - 2011)	20.600	@	OP1-0056-144	<u>65,188</u>	<u>7,181</u>
			20.600 - subtotal	<u>105,587</u>	<u>44,673</u>
Child Safety and Child Booster Seats Incentive Grants - (Boost Illinois - 2010)	20.613	@	BI0-0056-208	8,035	8,035
Child Safety and Child Booster Seats Incentive Grants - (Child Safety - 2010)	20.613	@	OP0-0056-207	<u>9,082</u>	<u>9,082</u>
			20.613 - subtotal	<u>17,117</u>	<u>17,117</u>
Passed through Illinois Emergency Management Agency					
Interagency Hazardous Materials Public Sector Training and Planning Grants - (HMEP - 2010)	20.703		10HMEPMCHE	<u>5,658</u>	<u>5,658</u>
Passed through Chicago Metropolitan Agency for Planning					
Highway Planning and Construction - 2010	20.205		C-10-0008	86,520	54,191
Highway Planning and Construction - 2011	20.205		C-11-0007	<u>86,540</u>	<u>30,809</u>
			20.205 - subtotal	<u>173,060</u>	<u>85,000</u>
<b>Total U.S. Department of Transportation</b>				<b>301,422</b>	<b>152,448</b>
U.S. Environmental Protection Agency					
Passed through Illinois Department of Public Health					
Performance Partnership Grants - (Potable Water - 2010)	66.605		05380380	18,975	18,975
<b>Total U.S. Environmental Protection Agency</b>				<b>18,975</b>	<b>18,975</b>

See accompanying notes to schedule of expenditures of federal awards

**County of McHenry, Illinois**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended November 30, 2010**

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 Energy ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128-ARRA *	EE0000821	\$ 2,475,900	\$ 1,866,371
<b>Total U.S. Department of Energy</b>			<b>2,475,900</b>	<b>1,866,371</b>
U.S. Department of Education Passed through Illinois State Board of Education Special Education - Grants to States - 2010	84.027A	65-108-1080-51	14,016	7,248
Special Education - Grants to States - 2011	84.027A	65-108-1080-51	14,016	4,874
<b>Total U.S. Department of Education</b>			<b>28,032</b>	<b>12,122</b>
U.S. Election Assistance Commission Passed through Illinois State Board of Elections Help America Vote Act Requirements Payments (2010 OS Voting Equipment)	90.401	n/a	28,140	28,140
<b>Total U.S. Election Assistance Commission</b>			<b>28,140</b>	<b>28,140</b>

See accompanying notes to schedule of expenditures of federal awards

**County of McHenry, Illinois**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended November 30, 2010**

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				
Passed through Illinois Department of Children and Family Services				
Promoting Safe and Stable Families - (FCS - 2010)	93.556	5430070	\$ 14,762	\$ -
Promoting Safe and Stable Families - (FCS - 2011)	93.556	5430071	<u>14,762</u>	<u>14,762</u>
		93.556 - subtotal	<u>29,524</u>	<u>14,762</u>
Passed through Illinois Department of Public Health				
Maternal and Child Health Federal Consolidated Programs - (Early Childhood Planning Grant - 2010)	93.110	03481003	<u>5,000</u>	<u>5,000</u>
Maternal and Child Health Services Block Grant to the States - (Oral Health - 2010)	93.994	03480163	<u>3,683</u>	<u>3,683</u>
Centers for Disease Control and Prevention-Investigations and Technical Assistance - (Breast & Cervical Cancer - 2010)	93.283	06180020	98,559	13,059
Centers for Disease Control and Prevention-Investigations and Technical Assistance - (Breast & Cervical Cancer - 2011)	93.283	16180021	<u>105,000</u>	<u>105,000</u>
		93.283 - subtotal	<u>203,559</u>	<u>118,059</u>
Public Health Emergency Preparedness - 2009-2011	93.069	07181054	457,589	234,766
Public Health Emergency Preparedness - (Cities Readiness - 2009-2011)	93.069	07181109	160,564	81,922
Public Health Emergency Preparedness - (PHER #1 - 2009-2011)	93.069	07181176	351,543	103,463
Public Health Emergency Preparedness - (PHER #3 - 2009-2011)	93.069	07181271	<u>532,180</u>	<u>421,719</u>
		93.069 - subtotal	<u>1,501,876</u>	<u>841,870</u>

See accompanying notes to schedule of expenditures of federal awards

**County of McHenry, Illinois**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended November 30, 2010**

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>34,000</u>	\$ <u>28,480</u>
Immunization Grants - (Noncash Assistance)	93.268	@	n/a	<u>-</u>	<u>369,622</u>
Passed through Illinois Department of Human Services					
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances - (McHenry Co Care - 2010)	93.104		040CL001456	495,196	-
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances - (McHenry Co Care - 2011)	93.104		140CM001456	1,142,582	226,417
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances - (Program Income)	93.104		n/a	<u>-</u>	<u>2,000</u>
			93.104 - subtotal	<u>1,637,778</u>	<u>228,417</u>
Maternal and Child Health Services Block Grant to the States - 2010	93.994		011GL340000	47,000	23,493
Maternal and Child Health Services Block Grant to the States - 2011	93.994		111GM340000	<u>27,000</u>	<u>14,105</u>
			93.994 - subtotal	<u>74,000</u>	<u>37,598</u>

See accompanying notes to schedule of expenditures of federal awards

**County of McHenry, Illinois**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended November 30, 2010**

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)					
Social Services Block Grant - 2010	93.667		011GL340000	\$ 39,400	\$ 22,931
Social Services Block Grant - 2011	93.667		111GM340000	46,441	21,344
Social Services Block Grant - (Title XX - 2010)	93.667		081XL128000	<u>257,643</u>	<u>150,295</u>
			93.667 - subtotal	<u>343,484</u>	<u>194,570</u>
Temporary Assistance for Needy Families - (Front Door - 2011)	93.558	@	181XMFD0063	10,265	1,191
Temporary Assistance for Needy Families - (Teen Reach - 2010)	93.558	@	011GL341000	87,329	36,702
Temporary Assistance for Needy Families - (Teen Reach - 2011)	93.558	@	111GM341000	<u>79,096</u>	<u>-</u>
			93.558 - subtotal	<u>176,690</u>	<u>37,893</u>
Child Care and Development Block Grant - 2010	93.575		011GL340000	40,000	23,913
Child Care and Development Block Grant - 2011	93.575		111GM340000	<u>60,000</u>	<u>24,104</u>
			93.575 - subtotal	<u>100,000</u>	<u>48,017</u>
Passed through Illinois Department of Healthcare and Family Services					
Medical Assistance Program	93.778		n/a	<u>236,840</u>	<u>236,840</u>
Child Support Enforcement	93.563		n/a	<u>6,113</u>	<u>6,113</u>
Passed through Illinois Public Health Association					
HIV Prevention Activities - Health Department Based - 2009	93.944		19 G75 7-005	30,000	2,707
HIV Prevention Activities - Health Department Based - 2010	93.944		1075703	<u>10,000</u>	<u>10,000</u>
			93.944 -subtotal	<u>40,000</u>	<u>12,707</u>
Passed through McHenry County Housing Authority					
ARRA - Community Services Block Grant	93.710-ARRA		VAC	<u>4,167</u>	<u>3,531</u>

See accompanying notes to schedule of expenditures of federal awards

**County of McHenry, Illinois**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended November 30, 2010**

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 Commerce and Economic Opportunity					
ARRA – Emergency Contingency Fund for Temporary Assistance for					
Needy Families (TANF) State Program (Illinois Youth Summer					
Employment 2010)					
	93.714-ARRA	@	10-071002	\$ 73,120	\$ 73,120
Passed through Administrative Office of the Illinois Courts					
State Court Improvement Program (CPDC Grant) - FFY10					
	93.586		CIPDG0804	8,175	8,175
State Court Improvement Program (CPDC Grant) - FFY11					
	93.586		CIPDG0904	37,500	210
			93.586 -subtotal	45,675	8,385
<b>Total U.S. Department of Health and Human Services</b>				<b>4,515,509</b>	<b>2,268,667</b>
Corporation For National And Community Service					
Passed through Illinois Department of Human Services					
AmeriCorps - 2010					
	94.006		011GL801000	107,206	59,138
AmeriCorps - 2011					
	94.006		111GL801000	206,032	55,881
			94.006 -subtotal	313,238	115,019
ARRA Funds - AmeriCorps - 2010					
	94.006-ARRA		011GK922000	32,541	24,751
ARRA Funds - AmeriCorps - 2011					
	94.006-ARRA		111GK922000	16,699	10,614
			94.006-ARRA -subtotal	49,240	35,365
Program Development and Innovation Grants (Americorps - 2010)					
	94.007		011GL801000	1,000	1,000
<b>Total Corporation For National And Community Service</b>				<b>363,478</b>	<b>151,384</b>

See accompanying notes to schedule of expenditures of federal awards

**County of McHenry, Illinois**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended November 30, 2010**

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				
Special Projects - Interoperable Emergency Communications				
Grant Program (IECGP)	97.001	008IECGPMCH	\$ <u>68,000</u>	\$ <u>68,000</u>
Hazard Mitigation Grant	97.039	00HM10MCHEN	<u>64,326</u>	<u>55,088</u>
Emergency Management Performance Grants - 2010 reallocation	97.042	09EMAMCHE3	29,448	29,448
Emergency Management Performance Grants - 2010	97.042	10EMAMCHEN	<u>71,242</u>	<u>59,342</u>
		97.042 - subtotal	<u>100,690</u>	<u>88,790</u>
<b>Total Department of Homeland Security</b>			<b>233,016</b>	<b>211,878</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 34,579,515</b>	<b>\$ 17,737,459</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, 2010

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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, 2010 was \$411,882. Of this amount, \$117,906 remained unused, and was included as inventory at November 30, 2010.

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, 2010 were \$2,711,646. The total reported represents assistance received from July 1, 2009 through November 30, 2010, which is a period of 17 months. In prior years, reported amounts represented assistance received on the state fiscal year only (July 1 – June 30), due to the availability of information from the Illinois Department of Human Services. However, more current information is now available and the County is including this information to catch up reported amounts to the County's fiscal year-end of November 30, 2010.

# COUNTY OF MCHENRY

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2010

### 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)	\$ 4,761,386
14.253	Community Development Block Grant ARRA Entitlement Grants (CDBG-R)	<u>162,005</u>
	Total	<u>\$ 4,923,391</u>

<u>CFDA No.</u>	<u>WIA Cluster</u>	
17.258	WIA Adult Programs	\$ 528,237
17.259	WIA Youth Activities	538,608
17.260	WIA Dislocated Workers	1,337,723
17.278	WIA Dislocated Workers	<u>359,173</u>
	Total	<u>\$ 2,763,741</u>

<u>CFDA No.</u>	<u>Highway Safety Cluster</u>	
20.600	State and Community Highway Safety	\$ 44,673
20.613	Child Safety and Child Booster Seats Incentive Grants	<u>17,117</u>
	Total	<u>\$ 61,790</u>

<u>CFDA No.</u>	<u>Immunization Cluster</u>	
93.268	Immunization Grants	\$ 369,622
93.712	ARRA – Immunization	<u>28,480</u>
	Total	<u>\$ 398,102</u>

<u>CFDA No.</u>	<u>TANF Cluster</u>	
93.558	Temporary Assistance for Needy Families (TANF) State Programs	\$ 37,893
93.714	ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Programs	<u>73,120</u>
	Total	<u>\$ 111,013</u>

## COUNTY OF MCHENRY

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2010

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#### NOTE 5 – SUBRECIPIENTS

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Of the federal expenditures presented in the schedule, 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	\$ 4,510,303
Home Investment Partnership Program (HOME)	14.239	654,783
Homeless Prevention and Rapid Re-Housing Program	14.257-ARRA	195,837
Community Development Block Grant ARRA (CDBG-R)	14.253-ARRA	162,005
Public Safety Interoperable Communications Grant Program	11.555	804,258
Social Services Block Grant – Title XX	93.667	150,295
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	160,484
Temporary Assistance for Needy Families	93.558	<u>36,702</u>
Total		<u>\$ 6,674,667</u>

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

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During the year ended November 30, 2010, 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, 2010

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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

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
81.128	ARRA – Energy Efficiency and Conservation Block Grant Program

Dollar threshold used to distinguish between  
type A and type B programs:                    \$   532,124

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2010

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#### SECTION II – FINANCIAL STATEMENT FINDINGS

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##### ***FINDING 2010-1 – 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 work-around tool 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.

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

*The Human Resources Department will research and review the issues related to the “Change History” option. This review will include what type of transactions are being performed with this option, which personnel have access to these changes, and how these changes appear on ADP Payroll Reports, plus how the changes reflect on the internally generated ReportSmith reports utilized by the Human Resource Department staff. At the conclusion of this research and review, decisions will be made to ensure that good internal controls exist within the ADP HRIS system.*

##### ***FINDING 2010-2 – 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 and Cathy Link – Purchasing Director***

*The County Auditor’s Office and the Purchasing Department made significant progress in developing a vendor maintenance procedural guide, which will create a formal policy on how new vendors and changes to existing vendors are processed. Processes will be defined on how to enter, update, determine the validity of the vendor, as well as how to facilitate an annual review of the vendor system. Thus far, with the aid of specialized reports, the active vendor count has been decreased from approximately 16,000 to fewer than 7,500. The project is expected to be completed during fiscal year 2011.*

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2010

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

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##### ***FINDING 2010-3 – DECENTRALIZED BANK ACCOUNTS***

The county maintains numerous bank accounts, some of which have significant activity each day of the year, and others that have minimal activity. Included in these bank accounts are fourteen checking accounts that are maintained in departments outside of the Treasurer's office and, therefore, are not subject to the same set of controls as the majority of the county's bank accounts. We bring this to your attention as there are increased risks associated with maintaining decentralized bank accounts. One checking account maintained by the County Clerk has an unresolved variance between the bank balance and the book balance at year end. We recommend the county consider adjusting the account to actual during 2011.

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

*A vast majority of the unresolved difference has already been reconciled and adjusted during fiscal year 2011. Additional research, including obtaining a legal opinion, on the remaining unresolved items is necessary to determine the appropriate steps to take. Once this additional research is complete, we will make the necessary adjustments so that the account is adjusted to actual as recommended.*

##### ***FINDING 2010-4 – COMPLIANCE WITH PURCHASING ORDINANCE***

We tested purchases made during 2009 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.

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

During the 2010 audit, we again noted inconsistency in the compliance with the county purchasing ordinance. We would recommend that the County consider implementing certain best practices in regards to purchase orders to standardize procedures throughout the County:

- > 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.

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2010

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

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##### ***FINDING 2010-4 – COMPLIANCE WITH PURCHASING ORDINANCE*** (cont.)

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

- > 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.

###### ***Management's Response by Ralph Sarbaugh – Associate County Administrator – Finance, Pamela Palmer – County Auditor, and Cathy Link – Purchasing Director***

*The Departments involved in the financial processes of purchasing, budgeting, and accounting agree with the need to strengthen the usage of the purchasing function through best practices and have been working towards better compliance with the Purchasing Ordinance. The core financial users group of the Performance Series software will be meeting to decide on revised or enhanced procedures concerning purchase order usage and the purchasing system. In addition, these decisions and related procedures will be incorporated into a new Purchasing Manual to offer guidance to users of the system. Development of the new purchasing manual has already begun and the final version is expected to be completed by the end of 2011. We believe that the new purchasing manual will substantially address all of the points noted in the finding. Lastly, training will be conducted with all system users to acquaint them with the new manual. This manual will also be made available through the County's employee intranet.*

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2010

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

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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***

**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

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2010

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

---

***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 (cont.)***

***Management's Response by Maryanne Wanaski - Deputy Director-Administrator, Community Development Division, Planning and Development Department:***

The Division currently assesses employee time for each grant on a quarterly basis in a process of evaluating job duties based on the workload of the grants and current grant activity. During funding rounds and program monitoring, employee workloads are transitioned towards the grant of highest priority. Additionally, the Division meets on a bi-weekly basis to evaluate the amount of time spent on particular grant activities and makes adjustments to staffing accordingly.

In 2011, the Division began tracking time using a program called Toggle that is available on the internet, however, the limited use and package does not provide for adequate time tracking assessment tools. Additionally, the County was to implement a time tracking tool for all employees that the Division anticipated utilizing for these purposes, but this has also been delayed. As such, after discussion with the external auditors, the Division has developed the following protocol to maintain compliance:

- > Continue bi-weekly evaluations of grant workloads.
- > Continue quarterly assessments of grant workloads in comparison with employee activity and percentages.
- > Complete monthly monitoring of employee time activity using a random sample method. Employees are assigned a specific week each month to complete a full time assessment of grant activities.
- > As an eligible CDBG administration expense, purchase time-tracking software i.e. advanced Toggle program or alternative pending the result of the implementation of the County time-tracking program-final decision and assessment to be made prior to October 1, 2011.

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2010

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

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##### ***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

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2010

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

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

##### ***Management's Response by Maryanne Wanaski - Deputy Director-Administrator, Community Development Division, Planning and Development Department:***

The Division requires a copy of the most current audit to be filed at the time of application for any federal funds, at the time of contracting, and/or project close-out if a new audit was conducted. Additionally, a majority of County subrecipients do not require A-133 audits as they do not receive the required threshold of federal funds. 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, nor did the Division copy and file the audit in duplicate. The other subrecipient is currently a troubled organization that has refused to complete a required signed-audit, and is working with a new auditing partner to complete a review of 2009-2010 and 2011 financials. The County Auditor's office has assisted the Division to provide financial condition/operation analysis of this organization. This analysis contributed to the current findings the Division has with this organization to date. To ensure that audits are collected and reviewed in a timely manner, the Division has developed the following protocol to maintain compliance:

- > Continue to require the most recent audit document available at the time of application, contracting, and closeout.
- > Create a filing system and data-base that monitors organizations that have open projects and/or closed projects from the last five years with the Division under any grant; on a quarterly basis review the files to determine if required audits have been received.
- > Notify all subrecipients of Division audit requirements.

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. In discussion with the County Auditor, the Auditor's office and the Division raised questions as to whether notification of disbursement applies to this particular grant as no other funding source was put towards the project that would require differentiation between regular CDBG or other federal funds, and the ARRA CDBG-R funding. After discussion with the external auditor, it was determined that the County would send a notice of disbursement during the upcoming monitoring of the program scheduled for July 20, 2011, as the external auditors stated that most entities send such notices for the purposes of assisting recipients with identifying funding sources for the Schedule of Federal Expenditure (SOFA) report on a quarterly or annual basis. The County will also send notification at the time of disbursement indicating the project received ARRA funds.

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2010

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

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##### ***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.

###### **Management's Response by Maryanne Wanaski - Deputy Director-Administrator, Community Development Division, Planning and Development Department:**

All future reports and schedules will be reviewed before being posted and up-loaded to the HUD reporting sites.

PAMELA PALMER  
County Auditor

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



PHONE: 815 334-4204  
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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
November 30, 2010

**FINDING 2009-1 – 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. We have recently discussed several options and methods with county staff as to how this could be accomplished.

**Corrective Action Taken During Fiscal Year 2010**

The County Auditor's Office and the Purchasing Department made significant progress in developing a vendor maintenance procedural guide, which will create a formal policy on how new vendors and changes to existing vendors are processed. Processes will be defined on how to enter, update, determine the validity of the vendor, as well as how to facilitate an annual review of the vendor system. Thus far, with the aid of specialized reports, the active vendor count has been decreased from approximately 16,000 to fewer than 7,500. The project is expected to be completed during fiscal year 2011.

**FINDING 2009-2 – DECENTRALIZED BANK ACCOUNTS**

The County maintains numerous bank accounts, some of which have significant activity each day of the year, and others that have minimal activity. Included in these bank accounts are fourteen checking accounts that are maintained in departments outside of the Treasurer's Office and, therefore, are not subject to the same set of controls as the majority of the county's bank accounts. We bring this to your attention as there are increased risks associated with maintaining decentralized bank accounts.

**Corrective Action Taken During Fiscal Year 2010**

The Auditor's Office agreed with the increased risk of these accounts. These accounts are within elected official's offices per their statutory duties and are reconciled by their staff. A year-end reconciled statement is requested by the Auditor's Office and reviewed for inclusion in the annual financial report. To test the controls in place and the timeliness and accuracy in the reconciliation process, the Internal Audit Program added a monitoring and review process to the Annual Audit Plan. During fiscal year 2010, an internal audit was performed for the County's decentralized bank accounts. The Internal Audit Division is currently completing follow up before finalizing the report. Once finalized in fiscal year 2011, the report will be presented to the Finance and Audit Committee and the elected official's board liaison committees.

We noted that two checking accounts maintained in the Sheriff's Narcotics Forfeiture division are not reconciled and one other Sheriff checking account maintained for purchasing equipment is no longer being used. All bank accounts should be reconciled on a monthly basis. The dormant bank account should be reviewed and if it is determined that it is no longer needed, it should be closed.

**FINDING 2009-2 – DECENTRALIZED BANK ACCOUNTS (Continued)**

**Corrective Action Taken During Fiscal Year 2010 – Narcotics Forfeiture Accounts**

The Sheriff's Office maintains a ledger and reconciles the Narcotics Forfeiture's two checking accounts on a monthly basis. The monthly reconciliation is then provided to Narcotics for their review and filing. The Sheriff's Office prepares the bank reconciliation in a standard format and it is reviewed monthly by a separate supervisor.

**Corrective Action Taken During Fiscal Year 2010 – Cert Training Account**

The CERT Training Account held at Harris Bank was opened several years ago and the deposits were from the sales of CERT Training t-shirts. CERT equipment was purchased with these funds. The account had a balance of approximately \$178 and was not used for an extended period of time. During fiscal year 2010, the funds were utilized for a small purchase and the account has now been closed.

Two checking accounts maintained by the County Clerk have unresolved variances between the bank balance and the book balance. The bank accounts have been reconciled monthly and at year-end, but a complete reconciliation of activity to the supporting documentation has not been occurring in a timely fashion. All reconciliations should be performed upon receipt of the bank statement to detect and resolve any variances in a timely manner. In addition, all reconciling items should be supportable and consist of known items.

**Corrective Action Taken During Fiscal Year 2010 – County Clerk Bank Accounts**

County Clerk's staff are currently reconciling the monthly bank statements of the redemption account (monies outstanding, to be paid to tax buyers, clerk fees, etc.) with the related support and DevNet computer system. By doing this each month, errors are caught immediately and corrected. Also, there are monthly checks of the manual judgment records with the computer records to ensure that both agree with each other. Also during fiscal year 2010, the two checking accounts were merged into a single account.

**FINDING 2009-3 – COMPLIANCE WITH PURCHASING ORDINANCE**

We tested purchases made during 2009 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.

**Corrective Action Taken During Fiscal Year 2010**

Purchasing has been working jointly with the Auditor's Office on the enforcement of the Ordinance through the monitoring of invoices submitted for payment. Invoices that should have used Purchasing are discussed with the Elected Official/Department Director and the related appropriate action. Several meetings have been conducted with related departments and improvements in compliance have been made. Also, Purchasing and the Auditor's Office regularly review customized reports from the financial management system to assess the usage of the purchasing process. Overall, the County is still working on improving compliance in this area. In fiscal year 2011, more training is expecting to occur with employees who handle purchasing for their departments.

**FINDING 2009-4 – SPECIAL SUPPLEMENT NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN – CFDA NO. 10.557**

**Criteria:**

The County is required to test applicants for anemia. Those individuals who only present anemia as a risk factor must be tested for anemia at the time of certification. Those individuals who do not present anemia as the only risk factor must be tested for anemia within 90 days of certification. Infants younger than 9 months are exempt from these requirements. Also, the County is required to document approval of eligibility and certification by the signatures of a certifying health official and a certifying nutritionist on the certification form.

**Condition:**

During our testing of eligibility controls and compliance two exceptions were found. Two out of forty files tested did not contain documentation that the anemia test was administered to the patient within the prescribed timelines. Also, two out of forty certification forms were not signed by either a certifying official or a nutritionist.

**Effect:**

Two out of forty individuals whose files were selected for testing were not in compliance with the anemia testing requirements. Also, the absence of the control (no signature of certifying officials on the eligibility form) could cause eligibility compliance deficiencies.

**Recommendation:**

We recommend that the County strive to ensure that all certification forms are signed by both certifying officials and that hemoglobin tests are documented in the files. We recommend that a designated person review the charts/files of each patient seen during the day to ensure all paperwork is in order.

**Questioned Costs:**

None

**Corrective Action Taken During Fiscal Year 2010**

Hemoglobin testing is performed to check for presence of anemia according to Illinois WIC Policy. In the event a client or parent refuses testing or the presence of an extenuating circumstance precludes testing at the time of the WIC visit, it is documented in the client's chart and/or Cornerstone case note. Absence of certifying individual's signatures on forms has been addressed with all WIC staff. Forms in question were reviewed and are now in compliance. The importance of accuracy and completeness of records was stressed to all WIC staff, with emphasis on meeting and maintaining all eligibility requirements of the program. Implementation of a review process at the end of each day to check the charts was initiated. CHP's (certifying health professionals) are checking their work and clerical staff are double checking for necessary documentation prior to filing in locked Bradford files.

In addition, the Internal Audit Division conducted a follow-up internal audit of the external findings and did not note any files within the sample that did not have the required signatures. However, we did note examples where anemia testing was not performed and no explanatory documentation was located in the files. Health Department staff developed a protocol for documentation on client records to either obtain test results or perform anemia testing at the subsequent follow-up visit. Monthly peer chart review includes verification of this process. Hemoglobin Assessments were discussed at the November WIC Staff Meeting. Discussion included reading the WIC Policy for biochemical assessments which lists time frames, referral medical data, deferral of bloodwork, refusal for medical or religious reasons, and standing orders. The importance of performing these assessments at the required time frames was emphasized. Chart reviews are conducted on alternate months during longer staff meetings. Of the fifty-six charts reviewed for visits completed after the internal audit, there is 100% compliance.

**FINDING 2009-5 – SPECIAL SUPPLEMENT NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN – CFDA NO. 10.557**

**Criteria and Conditions:**

Per the grant agreement, prior approval by the Illinois Department of Human Services is required for equipment items costing \$5,000 or above and having a useful life greater than one year. Program guidelines also require that purchases of computer software or hardware (regardless of amount) be approved by the designated regional staff. We noted one purchase of software or hardware, totaling \$5,672, which did not receive prior approval.

Equipment property management guidelines also require that inventory lists be maintained of the property purchased with federal funds. These listings should identify description (including serial number or other identification number); source; who holds title; acquisition date and cost; percentage of Federal participation in the cost; location; condition; and any ultimate disposition data including the date of disposal and sales price or method used to determine current fair market value. Per review of the WIC inventory listing, we noted that the listing did not identify who holds title or condition. It was also noted that certain assets on the list did not contain cost or date of acquisition information. Lastly, certain current year purchases were not included in the original listing given to the auditors. A revised list was later sent which included all 2009 additions.

**Effect:**

It is possible that certain costs will be disallowed as the County did not obtain the proper approvals for the purchase of certain equipment and software. Also, the County did not maintain all information required by federal guidelines in their inventory listing which could result in compliance deficiencies if the property is ever disposed.

**Recommendation:**

We recommend that the County ensure that all equipment, software and hardware purchases receive proper approval per the grant policies and procedures. Further, we recommend that the County revise its inventory listings to ensure that they contain all of the information required by the federal guidelines.

**Questioned Costs:**

None

**Corrective Action Taken During Fiscal Year 2010**

Prior approval had not consistently been requested for all computer software and hardware purchases during fiscal year 2009. However, in fiscal year 2010, the WIC program Coordinator in the Health Department has made it a priority to ensure all computer software and hardware purchases are approved in writing by the designated regional staff per Illinois WIC policy. During a follow-up internal audit, the Internal Audit Division verified that prior approval was received for the one instance noted.

The acquisition of a computerized inventory system by the Health Department has enabled the WIC program to accurately enter all equipment into a verifiable system. All required information per WIC guidelines i.e., a unique identifier, accurate description, serial number, date of purchase, unit cost and location/condition of property, have all been entered into the inventory listing. All future equipment will be added as acquired regularly. The Internal Audit Division performed a review of the inventory system during fiscal year 2010 and verified that it was current with recent purchases and all applicable fields have been added. A physical inventory count was performed in October 2010 by Health Department staff. Also, an annual June inventory count is currently scheduled.

**FINDING 2009-6 – PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS – CFDA NO. 16.710 AND PUBLIC SAFETY INTEROPERABLE COMMUNICATIONS GRANT PROGRAM – CFDA NO. 11.555**

**Criteria:**

The A-102 Common rule requires that equipment and property records be maintained for equipment and property purchased with federal funds. Property records should contain the following information about the equipment: description (including serial number or other identification number); source; who holds title; acquisition date and cost; percentage Federal participation in the cost; location; condition; and any ultimate disposition data including, the date of disposal and sales price or the method used to determine current fair market value.

**Condition:**

The inventory listing maintained by the Sheriff’s Department does not include the condition of the property and the percentage of federal participation in the property.

**Effect:**

Accurate and complete property records help the County identify which assets were purchased with federal funds. Also, complete records permit the County to comply with the federal property disposition regulations by allowing the County to identify that a disposed piece of equipment was originally purchased with federal funds. Without these complete property records, the County may not be able to accurately identify all equipment purchased with federal funds. Also, the County may not follow federal equipment disposition regulations properly if they are unable to identify that a disposed piece of equipment was originally purchased with federal funds.

**Recommendation:**

We recommend that the Sheriff’s Department review its inventory listing and add any pertinent fields required by the federal regulations.

**Questioned Costs:**

None

**Corrective Action Taken During Fiscal Year 2010**

All property is inventoried by serial number and jurisdiction location. In addition, all local jurisdictions sign a form stating they have received said equipment. All property is newly purchased and operational. The Sheriff’s Office reviewed its inventory listing and ensured that all pertinent fields required by federal regulations were added. Namely, the condition of the equipment and the federal participation has been updated on the inventory listing. These updated fields allow the Sheriff’s Office to track condition and federal participation of all equipment.

Also, the Sheriff’s Office has created a document called “Inventory Procedures for Equipment Purchased with Federal Funds”. These procedures have been implemented and include detailed inventory count measures along with a documented process that is followed for newly acquired equipment. Also, internal controls include the oversight by applicable command staff that ensure that all applicable federal guidelines related to maintaining proper equipment and property records is maintained and updated as required by federal regulation. In addition, an internal audit has been performed by the Internal Audit Division that verified that all applicable fields have been added to the inventory listing.

**FINDING 2009-7 – PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS – CFDA NO. 16.710**

**Criteria:**

Quarterly Financial Status Reports (SF-269A) are to be submitted on a quarterly basis. Each report should reflect the actual federal monies spent, un-liquidated obligations incurred, and the unobligated balance of federal funds. These reports must be submitted to the awarding agency by 45 calendar days after the quarter end.

**Condition:**

Our review of the Financial Status Reports prepared for Award 2008CKWZ0198 determined that the expenditures were improperly reported. The dates of the outlay were reported as 10/1/08 - 12/31/08. However, \$21,168 was incurred during the period 4/1/09 - 6/30/09 and \$405,427 was incurred during the period 10/1/09 - 12/31/09. As of November 30, 2009, \$17,672 of expenditures had not yet been incurred. However, the Financial Status Report ending 12/31/08 had reported the grant as fully expended. Also, the quarterly reports were not filed in a timely fashion. Quarterly reports are due 45 calendar days following the quarter end. The quarterly reports were submitted past this deadline.

Our review of the Financial Status Reports prepared for Award 2008CKWX0304 also determined that this report was not prepared accurately. The reports listed \$93,530 as being expended in the fourth quarter of 2008. However, these amounts were actually expended in fourth quarter of 2009. The reports under this award number were also filed after the 45 day deadline.

Lastly, our review of the Financial Status Reports for award 2008CKWX0175 also noted that they were filed after the 45 day deadline.

**Effect:**

Noncompliance with program reporting requirements may result in penalties or disallowed costs.

**Recommendation:**

We recommend that the County evaluate the procedures and controls surrounding the preparation of the Financial Status Reports. We recommend that the County use the general ledger detail as a basis for completing these reports. Also, we recommend that a system of reminders be established to remind staff of when the Financial Status Reports are due so that the reports are filed in a timely manner.

**Questioned Costs:**

For award 2008CKWX0198, the questioned costs are \$17,672 as these amounts were reported as expended in the Financial Status Report, but had not yet actually been expended by the audit date (November 30, 2009).

**Corrective Action Taken During Fiscal Year 2010**

The recommendation to use the general ledger detail as the basis for completing the Financial Status Reports is currently standard operating procedure. The Sheriff's Office has received appropriate and applicable oversight and guidance from the Auditor's Office. In addition, the Sheriff's Office maintains internal controls through a corrective action plan that ensures that the general ledger detail is used as the sole source for completing the federal financial status reports and that there is internal oversight by applicable command staff through a review and final approval of all federal reports prior to submission to the federal government. The Sheriff's Office has created a document called "Federal Financial Reporting Procedures" that outlines the process that is followed when completing a Financial Status Report.

Regarding the \$17,672 of questioned costs, \$871 was expended during fiscal year 2010 and the balance of \$16,801 was returned to the U.S. Treasury on November 22, 2010.

During an internal audit, all Sheriff's Office Grant reports were noted as filed within the prescribed timelines.

**FINDING 2009-8 – PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS – CFDA NO. 16.710**

**Criteria:**

Per the program requirements, if funds are received through electronic transfer, the county is allowed ten days to disburse the funds. There should be no excess federal grant funds on hand beyond ten days.

**Condition:**

Program requirements state that cash must not be drawn down more than 10 days in advance of payment of expenditures. Per review of the cash draw downs performed, the time elapsed between draw down of funds and expenditure of funds was greater than 10 days for award 2008CKWX0198 and award 2008CKWX0304. For award 2008CKWX0198, cash was drawn down by the County in the amount of \$444,268 on June 16, 2009. On June 30, 2009, \$21,168 in expenditures was paid and on November 17, 2009, \$405,427 was paid. Both of these payments occurred outside the 10 day period. Also, as of the date of the audit, November 30, 2009, \$17,672 of cash drawn down had not been expended.

**Effect:**

The County had federal grant funds on hand in excess of the ten days permitted by the program requirements.

**Recommendation:**

We recommend that the County determine the date that expenditures are expected to be paid in order to determine the date that cash can be drawn down.

**Questioned Costs:**

For award 2008CKWX018, the questioned costs are \$17,672 as this was the excess cash on hand as of November 30, 2009. This amount is also reported in finding 2009-7.

**Corrective Action Taken During Fiscal Year 2010**

The project was scheduled to proceed and the draw down was approved and executed. Funds were received/drawn down with the anticipation that the funds would be expended. The project suffered many delays due to the complex expansiveness of the radio StarCom Project; most notably, its issues with communications interoperability. Interoperable radio communications allows police, fire, EMS and other first responders to talk to one another during an emergency across agencies and across boundary lines. Achieving interoperability is crucial for the mission-critical communications industry where an interruption in communication can cost lives.

Issues impacting the project funded by this grant were related to the regional use of legacy radios as well as taking into consideration the purchase of a P25 compliant system, which does not necessarily enable instant interoperability. The issue of bridging systems to provide the means to patch disparate radios was an ongoing evaluative process. Equipment was ordered but final billing or "Certificate of System Acceptance" could not take place until the equipment was fully operational, which resulted in funds not being spent within ten days of the draw down.

The Sheriff's Office has implemented procedures for drawing down funds called "Federal Grant Draw Down Procedures", which includes the use of final invoices and oversight that equipment has been ordered and is received. Currently, the funds are not drawn down unless they can be spent within the ten day federal window. In addition, there is oversight by applicable command staff who assess whether it is appropriate to draw funds down.

Regarding the \$17,672 of questioned costs, \$871 was expended during fiscal year 2010 and the balance of \$16,801 was returned to the U.S. Treasury on November 22, 2010.

During an internal audit, there were no instances where funds were drawn down prior to use.

PAMELA PALMER  
County Auditor

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



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**CORRECTIVE ACTION PLAN**  
November 30, 2010

**FINDING 2010-1 – 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 work-around tool 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.

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

The Human Resources Department will research and review the issues related to the “Change History” option. This review will include what type of transactions are being performed with this option, which personnel have access to these changes, and how these changes appear on ADP Payroll Reports, plus how the changes reflect on the internally generated ReportSmith reports utilized by the Human Resource Department staff. At the conclusion of this research and review, decisions will be made to ensure that good internal controls exist within the ADP HRIS system.

**FINDING 2010-2 – 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 and Cathy Link – Purchasing Director**

The County Auditor’s Office and the Purchasing Department made significant progress in developing a vendor maintenance procedural guide, which will create a formal policy on how new vendors and changes to existing vendors are processed. Processes will be defined on how to enter, update, determine the validity of the vendor, as well as how to facilitate an annual review of the vendor system. Thus far, with the aid of specialized reports, the active vendor count has been decreased from approximately 16,000 to fewer than 7,500. The project is expected to be completed during fiscal year 2011.

### **FINDING 2010-3 – DECENTRALIZED BANK ACCOUNTS**

The county maintains numerous bank accounts, some of which have significant activity each day of the year, and others that have minimal activity. Included in these bank accounts are fourteen checking accounts that are maintained in departments outside of the Treasurer's office and, therefore, are not subject to the same set of controls as the majority of the county's bank accounts. We bring this to your attention as there are increased risks associated with maintaining decentralized bank accounts. One checking account maintained by the County Clerk has an unresolved variance between the bank balance and the book balance at year end. We recommend the county consider adjusting the account to actual during 2011.

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

A vast majority of the unresolved difference has already been reconciled and adjusted during fiscal year 2011. Additional research, including obtaining a legal opinion, on the remaining unresolved items is necessary to determine the appropriate steps to take. Once this additional research is complete, we will make the necessary adjustments so that the account is adjusted to actual as recommended.

### **FINDING 2010-4 – COMPLIANCE WITH PURCHASING ORDINANCE**

We tested purchases made during 2009 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.

#### *Current Year Status*

During the 2010 audit, we again noted inconsistency in the compliance with the county purchasing ordinance. We would recommend that the County consider implementing certain best practices in regards to purchase orders to standardize procedures throughout the County:

- > 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 2010-4 – COMPLIANCE WITH PURCHASING ORDINANCE (Continued)**

**Management’s Response by Ralph Sarbaugh - Associate County Administrator – Finance, Pamela Palmer – County Auditor, and Cathy Link – Purchasing Director**

The Departments involved in the financial processes of purchasing, budgeting, and accounting agree with the need to strengthen the usage of the purchasing function through best practices and have been working towards better compliance with the Purchasing Ordinance. The core financial users group of the Performance Series software will be meeting to decide on revised or enhanced procedures concerning purchase order usage and the purchasing system. In addition, these decisions and related procedures will be incorporated into a new Purchasing Manual to offer guidance to users of the system. Development of the new purchasing manual has already begun and the final version is expected to be completed by the end of 2011. We believe that the new purchasing manual will substantially address all of the points noted in the finding. Lastly, training will be conducted with all system users to acquaint them with the new manual. This manual will also be made available through the County’s employee intranet.

**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.

**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)**

**Management’s Response by Maryanne Wanaski - Deputy Director-Administrator, Community Development Division, Planning and Development Department**

The Division currently assesses employee time for each grant on a quarterly basis in a process of evaluating job duties based on the workload of the grants and current grant activity. During funding rounds and program monitoring, employee workloads are transitioned towards the grant of highest priority. Additionally, the Division meets on a bi-weekly basis to evaluate the amount of time spent on particular grant activities and makes adjustments to staffing accordingly.

In 2011, the Division began tracking time using a program called Toggle that is available on the internet, however, the limited use and package does not provide for adequate time tracking assessment tools. Additionally, the County was to implement a time tracking tool for all employees that the Division anticipated utilizing for these purposes, but this has also been delayed. As such, after discussion with the external auditors, the Division has developed the following protocol to maintain compliance:

- Continue bi-weekly evaluations of grant workloads.
- Continue quarterly assessments of grant workloads in comparison with employee activity and percentages.
- Complete monthly monitoring of employee time activity using a random sample method. Employees are assigned a specific week each month to complete a full time assessment of grant activities.
- As an eligible CDBG administration expense, purchase time-tracking software i.e. advanced Toggle program or alternative pending the result of the implementation of the County time-tracking program-final decision and assessment to be made prior to October 1, 2011.

**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.

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

**Questioned Costs:**

None

**Management’s Response by Maryanne Wanaski - Deputy Director-Administrator, Community Development Division, Planning and Development Department**

The Division requires a copy of the most current audit to be filed at the time of application for any federal funds, at the time of contracting, and/or project close-out if a new audit was conducted. Additionally, a majority of County subrecipients do not require A-133 audits as they do not receive the required threshold of federal funds. 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, nor did the Division copy and file the audit in duplicate. The other subrecipient is currently a troubled organization that has refused to complete a required signed-audit, and is working with a new auditing partner to complete a review of 2009-2010 and 2011 financials. The County Auditor’s office has assisted the Division to provide financial condition/operation analysis of this organization. This analysis contributed to the current findings the Division has with this organization to date. To ensure that audits are collected and reviewed in a timely manner, the Division has developed the following protocol to maintain compliance:

- Continue to require the most recent audit document available at the time of application, contracting, and closeout.
- Create a filing system and data-base that monitors organizations that have open projects and/or closed projects from the last five years with the Division under any grant; on a quarterly basis review the files to determine if required audits have been received.
- Notify all subrecipients of Division audit requirements.

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. In discussion with the County Auditor, the Auditor’s office and the Division raised questions as to whether notification of disbursement applies to this particular grant as no other funding source was put towards the project that would require differentiation between regular CDBG or other federal funds, and the ARRA CDBG-R funding. After discussion with the external auditor, it was determined that the County would send a notice of disbursement during the upcoming monitoring of the program scheduled for July 20, 2011, as the external auditors stated that most entities send such notices for the purposes of assisting recipients with identifying funding sources for the Schedule of Federal Expenditure (SOFA) report on a quarterly or annual basis. The County will also send notification at the time of disbursement indicating the project received ARRA funds.

**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.

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

**Questioned Costs:**

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

**Management's Response by Maryanne Wanaski - Deputy Director-Administrator, Community Development Division, Planning and Development Department**

All future reports and schedules will be reviewed before being posted and up-loaded to the HUD reporting sites.