

**COUNTY OF MCHENRY**

**REPORT ON FEDERAL AWARDS**

For the Year Ended November 30, 2007

# 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, 2007, which collectively comprise the County of McHenry's basic financial statements and have issued our report thereon dated May 14, 2008. 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. The financial statements of the Public Building Commission and the 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County of McHenry's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County of McHenry's financial statements that is more than inconsequential will not be prevented or detected by the County of McHenry's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. This deficiency is item 2007-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County of McHenry's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider item 2007-1 to be a material weakness

#### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the County of McHenry's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the County of McHenry in a separate letter dated May 14, 2008.

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.

Madison, Wisconsin  
May 14, 2008

*Virchow, Krause & Company, LLP*



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND 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 compliance of the County of McHenry, Illinois with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended November 30, 2007. The County of McHenry's major federal programs are identified in the summary of auditors' 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 requirements referred to above that are applicable to each of its major federal programs for the year ended November 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2007-2.

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

***Internal Control Over Compliance***

The management of the County of McHenry is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the 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 control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

***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, 2007, which collectively comprise the County of McHenry's basic financial statements and have issued our report thereon dated May 14, 2008. 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, 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.

*Virchow, Krause & Company, LLP*

Madison, Wisconsin  
May 14, 2008

**COUNTY OF MCHENRY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended November 30, 2007

| 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<br>Housing Investment Partnership (HOME) |                     |                                     |                         |                      |
| 2005  | 14.239              | * M05MC170219                       | \$ 551,904              | 287,559              |
| 2006  | 14.239              | * M06UC170219                       | 508,973                 | 176,236              |
| Community Development Block Grant (CDBG)  |                     |                                     |                         |                      |
| 2003  | 14.218              | * B03UC170007                       | 1,487,000               | 916                  |
| 2004  | 14.218              | * B04UC170007                       | 1,518,000               | 216,904              |
| 2005  | 14.218              | * B05UC170007                       | 1,455,010               | 207,372              |
| 2006  | 14.218              | * B06UC170007                       | 1,327,397               | 742,236              |
| 2007  | 14.218              | * B07UC170007                       | 1,339,291               | 429,526              |
| <b>Total U.S. Department of Housing and Urban Development</b>                             |                     |                                     | <b>8,187,575</b>        | <b>2,060,749</b>     |
| U.S. Department of Agriculture  |                     |                                     |                         |                      |
| Passed through Illinois Department of Human Services                                      |                     |                                     |                         |                      |
| WIC Supplemental Nutrition - 2007   | 10.557              | 711G7340900                         | 531,100                 | 349,357              |
| WIC Supplemental Nutrition - 2008   | 10.557              | 811G8340900                         | 536,100                 | 198,513              |
| Noncash Food Instruments - State Year 2005  | 10.557              | n/a                                 | n/a                     | 1,139,097            |
| Passed through Illinois Department of Public Health                                       |                     |                                     |                         |                      |
| Summer Food Service Program for Children - 2007   | 10.559              | n/a                                 | 500                     | 500                  |
| <b>Total U.S. Department of Agriculture</b>   |                     |                                     | <b>1,067,700</b>        | <b>1,687,467</b>     |

See accompanying notes to schedule of expenditures of federal awards.

# COUNTY OF MCHENRY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended November 30, 2007

| Federal Grantor/Pass-through Grantor/Program Title                      | Federal<br>CFDA<br>Number | Grant/<br>Pass-through<br>Grantors'<br>Number | Program<br>or Award<br>Amount | Federal<br>Expenditures |
|---|---------------------------|---|-------------------------------|-------------------------|
| U.S. Department of Labor  |                           |   |                               |                         |
| Passed through Illinois Department of Commerce and Economic Opportunity |                           |   |                               |                         |
| Workforce Investment Act  |                           |   |                               |                         |
| Trade Adjustment Assistance - 2006                                      | 17.245                    | 06-661002                                     | \$ 320,897                    | \$ 157,465              |
| WIA Adult Programs - 2006   | 17.258                    | 06-681002                                     | 371,341                       | 310,841                 |
| WIA Adult Programs - 2007   | 17.258                    | 07-681002                                     | 347,901                       | 81,075                  |
| WIA Local Board Staffing  | 17.258                    | 05-631002                                     | 11,670                        | 5,113                   |
| WIA Statewide Activities - High-speed Internet                          | 17.258                    | 05-632002                                     | 2,360                         | 1,551                   |
| WIA 10% Statewide Activities Incentive                                  | 17.258                    | 04-67202                                      | 4,726                         | 4,726                   |
| WIA 10% Statewide Activities Technical Assistance                       | 17.258                    | 06-671021                                     | 1,144                         | 1,144                   |
| WIA 10% Statewide Activities Incentive II                               | 17.258                    | 05-672002                                     | 4,368                         | 4,368                   |
| WIA Adult Programs - Program Income - 2006                              | 17.258                    | n/a   | n/a                           | 7,864                   |
| WIA Adult Programs - Program Income - 2007                              | 17.258                    | n/a   | n/a                           | 1,132                   |
| WIA 5% Local Board Support  | 17.258                    | 06-631002                                     | 12,300                        | 4,113                   |
| WIA 10% Statewide Activities  | 17.258                    | 06-676102                                     | 18,451                        | 5,070                   |
| WIA Youth Activities - 2006   | 17.259                    | 06-681002                                     | 498,424                       | 455,924                 |
| WIA Youth Activities - 2007   | 17.259                    | 07-681002                                     | 479,249                       | 187,895                 |
| WIA Local Board Staffing  | 17.259                    | 05-631002                                     | 19,098                        | 6,863                   |
| WIA Statewide Activities - High-speed Internet                          | 17.259                    | 05-632002                                     | 3,170                         | 2,082                   |
| WIA 10% Statewide Activities Incentive                                  | 17.259                    | 04-67202                                      | 6,343                         | 6,343                   |
| WIA 10% Statewide Activities Technical Assistance                       | 17.259                    | 06-671021                                     | 1,535                         | 1,535                   |
| WIA 10% Statewide Activities Incentive II                               | 17.259                    | 05-672002                                     | 5,863                         | 5,863                   |
| WIA Youth Activities - Program Income - 2006                            | 17.259                    | n/a   | n/a                           | 10,555                  |
| WIA Youth Activities - Program Income - 2007                            | 17.259                    | n/a   | n/a                           | 1,560                   |
| WIA 5% Local Board Support  | 17.259                    | 06-631002                                     | 16,944                        | 5,667                   |
| WIA 10% Statewide Activities  | 17.259                    | 06-676102                                     | 25,417                        | 6,984                   |
| WIA Dislocated Workers - WIA Rapid Response - 2006                      | 17.260                    | 06-651002                                     | 193,440                       | 154,402                 |
| WIA Dislocated Workers - 2006   | 17.260                    | 06-681002                                     | 757,563                       | 633,753                 |

See accompanying notes to schedule of expenditures of federal awards.

**COUNTY OF MCHENRY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended November 30, 2007

| 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 - 2007   | 17.260              | * 07-681002                         | \$ 587,036              | \$ 48,485            |
| WIA Local Board Staffing  | 17.260              | * 05-631002                         | 19,232                  | 10,432               |
| WIA Statewide Activities - High-speed Internet                                      | 17.260              | * 05-632002                         | 4,380                   | 3,163                |
| WIA 10% Statewide Activities Incentive  | 17.260              | * 04-67202                          | 9,640                   | 9,640                |
| WIA 10% Statewide Activities Technical Assistance                                   | 17.260              | * 06-671021                         | 2,334                   | 2,334                |
| WIA 10% Statewide Activities Incentive II   | 17.260              | * 05-672002                         | 8,913                   | 8,913                |
| WIA Dislocated Workers - Program Income - 2006                                      | 17.260              | n/a                                 | n/a                     | 16,042               |
| WIA Dislocated Workers - Program Income - 2007                                      | 17.260              | n/a                                 | n/a                     | 1,910                |
| WIA 5% Local Board Support  | 17.260              | * 06-631002                         | 20,756                  | 6,941                |
| WIA 10% Statewide Activities  | 17.260              | * 06-676102                         | 31,132                  | 8,556                |
| <b>Total U.S. Department of Labor</b>   |                     |                                     | <b>3,785,627</b>        | <b>2,180,304</b>     |
| U.S. Department of Education  |                     |                                     |                         |                      |
| Passed through Illinois State Board of Education                                    |                     |                                     |                         |                      |
| IDEA, Discretionary - 2007  | 84.027              | 65-108-1080-51                      | 26,758                  | 13,647               |
| IDEA, Discretionary - 2008  | 84.027              | 65-108-1080-51                      | 17,086                  | 5,538                |
| <b>Total U.S. Department of Education</b>   |                     |                                     | <b>43,844</b>           | <b>19,185</b>        |

See accompanying notes to schedule of expenditures of federal awards.

# COUNTY OF MCHENRY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended November 30, 2007

| Federal Grantor/Pass-through Grantor/Program Title   | Federal<br>CFDA<br>Number | Grant/<br>Pass-through<br>Grantors'<br>Number | Program<br>or Award<br>Amount | Federal<br>Expenditures |
|--|---------------------------|---|-------------------------------|-------------------------|
| U.S. Department of Health and Human Services<br>Medical Reserve Corps Small Grant Program - 2006   | 93.008                    | MRCSEG030089-03-0                             | \$ 68,487                     | \$ 12,574               |
| Passed through National Association of County and City Health Officials<br>Medical Reserve Corps Grant Program - 2007  | 93.008                    | MRC 07414                                     | 10,000                        | 10,000                  |
| Passed through Illinois Department of Children and Family Services<br>Family Centered Services - 2007  | 93.556                    | 5430077                                       | 12,726                        | 12,726                  |
| Family Centered Services - 2008  | 93.556                    | 5430078                                       | 12,572                        | 12,572                  |
| Adoption Assistance - 2008   | 93.659                    | 5430028                                       | 16,970                        | 13,781                  |
| Passed through Illinois Department of Public Health<br>Project Grants And Cooperative Agreements For Tuberculosis Control Programs<br>Tuberculosis Clinic - 2007 | 93.116                    | n/a   | 2,500                         | 2,500                   |
| Maternal and Child Health Services Block Grant<br>Oral Health - 2007   | 93.994                    | 73480170                                      | 6,487                         | 6,487                   |
| Centers for Disease Control and Prevention Investigations<br>Emergency Preparedness - 2007   | 93.283                    | 77181060                                      | 264,475                       | 207,648                 |
| Pandemic Influenza - 2007  | 93.283                    | 77181149                                      | 95,507                        | 95,503                  |
| Cities Readiness - 2007  | 93.283                    | 77181208                                      | 43,490                        | 43,490                  |
| Tobacco Reality - 2007   | 93.283                    | 73281123                                      | 7,500                         | 7,500                   |
| Breast & Cervical Cancer - 2008  | 93.283                    | 86180090                                      | 161,650                       | 17,867                  |
| Public Health Emergency Preparedness<br>Emergency Preparedness - 2008  | 93.069                    | 87181054                                      | 345,017                       | 44,269                  |
| Immunization Grants<br>Vaccinations - Noncash Assistance   | 93.268                    | *   | n/a                           | 308,487                 |

See accompanying notes to schedule of expenditures of federal awards.

# COUNTY OF MCHENRY

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended November 30, 2007

| Federal Grantor/Pass-through Grantor/Program Title                        | Federal<br>CFDA<br>Number | Grant/<br>Pass-through<br>Grantors'<br>Number | Program<br>or Award<br>Amount | Federal<br>Expenditures |
|---|---------------------------|---|-------------------------------|-------------------------|
| <b>U.S. Department of Health and Human Services (cont.)</b>               |                           |   |                               |                         |
| Passed through Illinois Department of Human Services                      |                           |   |                               |                         |
| Child Mental Health Service Initiative (McHenry Co Care) - 2007           | 93.104                    | 40C7001456                                    | \$ 1,223,119                  | \$ 462,119              |
| Child Mental Health Service Initiative (McHenry Co Care) - 2008           | 93.104                    | 40C8001456                                    | 1,859,082                     | 1,141,004               |
| Child Mental Health Service Initiative (McHenry Co Care) - program income | 93.104                    | n/a   | -                             | 5,960                   |
| Maternal/Child Health Services Block Grant -2007                          | 93.994                    | 711G7340000                                   | 46,000                        | 23,949                  |
| Maternal/Child Health Services Block Grant -2008                          | 93.994                    | 811G8340000                                   | 50,000                        | 23,193                  |
| Title XX Block Grant - 2007   | 93.667                    | 711G7340000                                   | 38,900                        | 38,900                  |
| Social Services Block Grant - Title XX - 2007                             | 93.667                    | 71X7041000                                    | 257,643                       | 150,295                 |
| Social Services Block Grant - Title XX - 2008                             | 93.667                    | 81X8041000                                    | 257,643                       | 107,348                 |
| Temporary Assistance for Needy Families (TANF) - 2007                     | 93.558                    | 711G7341000                                   | 100,940                       | 940                     |
| Temporary Assistance for Needy Families (TANF) - 2008                     | 93.558                    | 811G8341000                                   | 100,940                       | 100,940                 |
| Child Care and Development Block Grant - 2007                             | 93.575                    | 711G7340420                                   | 39,323                        | 24,761                  |
| Child Care and Development Block Grant - 2008                             | 93.575                    | 811G8340420                                   | 40,000                        | 16,510                  |
| Passed through Illinois Department of Healthcare and Family Services      |                           |   |                               |                         |
| Medical Assistance Program  | 93.778                    | n/a   | 206,459                       | 206,459                 |
| Child Support Enforcement   | 93.563                    | n/a   | 7,107                         | 7,107                   |
| Passed through Illinois Public Health Association                         |                           |   |                               |                         |
| HIV Prevention Activities - 2006  | 93.940                    | CY2006  | 30,000                        | 2,433                   |
| HIV Prevention Activities - 2007  | 93.940                    | 07 G75 2-003                                  | 30,000                        | 28,068                  |
| <b>Total U.S. Department of Health and Human Services</b>                 |                           |   | <b>5,334,537</b>              | <b>3,135,390</b>        |
| Corporation For National And Community Service                            |                           |   |                               |                         |
| Passed through Illinois Department of Human Services                      |                           |   |                               |                         |
| Americorps - 2007   | 94.006                    | 711G7814000                                   | 72,473                        | 48,301                  |
| Americorps - 2008   | 94.006                    | 811G7814000                                   | 139,207                       | 18,012                  |
| <b>Total Corporation For National And Community Service</b>               |                           |   | <b>211,680</b>                | <b>66,313</b>           |

See accompanying notes to schedule of expenditures of federal awards.

**COUNTY OF MCHENRY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended November 30, 2007

| Federal Grantor/Pass-through Grantor/Program Title   | Federal CFDA Number  | Grant/Pass-through Grantors' Number   | Program or Award Amount                                  | Federal Expenditures                                   |
|--|--|---|--|--|
| U.S. Environmental Protection Agency<br>Passed through Illinois Department of Public Health<br>Performance Partnership Grants - Potable Water - 2007   | 66.605   | 75380173  | \$ 15,288  | \$ 15,288  |
| <b>Total U.S. Environmental Protection Agency</b>  |  |   | <b>15,288</b>  | <b>15,288</b>  |
| U.S. Department of Transportation<br>Passed through Illinois Department of Transportation<br>Highway Planning and Construction<br>Geographic Information System (GIS) Grant<br>State And Community Highway Safety<br>IMAGE Grant - 2007<br>Speed Enforcement Program - 2007<br>MCR Incentive In-Car Printers Grant<br>IMAGE Grant - 2008<br>Speed Enforcement Program - 2008 | 20.205<br>20.600<br>20.602<br>20.600<br>20.600<br>20.600<br>20.600 | GIS/04 - 19<br>OP7-0056-157<br>SP7-0056-219<br>TR7-0056-458<br>OP8-0056-288<br>SP8-0056-289 | 76,331<br>46,750<br>23,848<br>14,145<br>47,999<br>25,767 | 15,800<br>46,750<br>23,848<br>14,145<br>8,597<br>3,691 |
| Passed through Illinois Emergency Management Agency<br>Hazardous Materials Emergency Preparedness Grant - 2007<br>Passed through Regional Planning Board<br>Transportation Planning - 2007<br>Passed through Chicago Metropolitan Agency for Planning<br>Transportation Planning - 2008  | 20.703<br>20.205<br>20.205   | 07HMEPMCHE<br>FY2007<br>08-SC-008   | 734<br>57,044<br>76,039                                  | 734<br>32,007<br>25,013                                |
| <b>Total U.S. Department of Transportation</b>   |  |   | <b>368,657</b>   | <b>170,585</b>   |

See accompanying notes to schedule of expenditures of federal awards.

**COUNTY OF MCHENRY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year Ended November 30, 2007

| 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   |                     |                                     |                         |                      |
| Grants to Encourage Arrest Policies & Enforcement of Protection Orders<br>Bureau of Justice Assistance | 16.590              | 2006-WE-AX-0044                     | \$ 358,326              | \$ 184,813           |
| State Criminal Alien Assistance Program (SCAAP)  | 16.606              | n/a                                 | 258,978                 | 258,978              |
| Passed through Illinois Criminal Justice Authority   |                     |                                     |                         |                      |
| Juvenile Accountability Incentive Block Grant - 2007   | 16.523              | 504004                              | 10,662                  | 10,662               |
| Multi-Jurisdictional Drug Prosecution - 2007   | 16.579              | 405024                              | 83,394                  | 78,651               |
| <b>Total U.S. Department of Justice</b>  |                     |                                     | <b>711,360</b>          | <b>533,104</b>       |
| Department of Homeland Security  |                     |                                     |                         |                      |
| Passed through Illinois Emergency Management Agency  |                     |                                     |                         |                      |
| Disaster Grants - Public Assistance  | 97.036              | n/a                                 | 74,852                  | 74,852               |
| Emergency Management Performance Grants - 2007   | 97.042              | 07EMA95                             | 62,247                  | 47,347               |
| Emergency Management Performance Grants - 2008   | 97.042              | 08EMA95                             | 98,156                  | 16,400               |
| <b>Total Department of Homeland Security</b>   |                     |                                     | <b>235,255</b>          | <b>138,599</b>       |
| <b>Total Expenditures of Federal Awards</b>  |                     |                                     | <b>\$ 19,961,523</b>    | <b>\$ 10,006,984</b> |

\* Denotes a major program.

See accompanying 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, 2007

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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 Conservation District did not receive any federal awards during the year.

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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, 2007 was \$244,450. Of this amount, \$52,950 remained unused, and was included as inventory at November 30, 2007.

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, 2007 were \$1,139,097.

## COUNTY OF MCHENRY

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2007

#### **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>WIA Cluster</u>     |                     |
|-----------------|------------------------|---------------------|
| 17.258          | WIA Adult Programs     | \$ 426,997          |
| 17.259          | WIA Youth Activities   | 691,271             |
| 17.260          | WIA Dislocated Workers | <u>904,571</u>      |
|                 | Total                  | <u>\$ 2,022,839</u> |

#### **NOTE 5 – SUBRECIPIENTS**

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<br/>CFDA<br/>Number</u> | <u>Amount<br/>Provided to<br/>Subrecipients</u> |
|--|------------------------------------|---|
| Community Development Block Grant (CDBG) | 14.218                             | \$ 1,502,615                                    |
| Home Investment Partnership (HOME)       | 14.239                             | 463,795   |
| Social Services Block Grant – Title XX   | 93.667                             | 257,643   |
| Child Mental Health Service Initiative   | 93.104                             | 597,043   |
| Temporary Assistance to Needy Families   | 93.558                             | <u>101,880</u>                                  |
| Total                                    |                                    | <u>\$ 2,922,976</u>                             |

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2007

#### **SECTION I – SUMMARY OF AUDITORS’ RESULTS**

##### **FINANCIAL STATEMENTS**

Type of auditors’ report issued: *unqualified*

Internal control over financial reporting:

- Material weakness(es) identified?              X   yes                   no
- Significant deficiencies identified that are not considered to be material weaknesses?                   yes              X   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)?                   yes              X   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> |
|------------------------|---|
| 14.239                 | Housing Investment Partnership (HOME)     |
| 14.218                 | Community Development Block Grant (CDBG)  |
| 17.258, 17.259, 17.260 | Workforce Investment Act Cluster          |
| 93.268                 | Vaccinations – Non-cash Assistance        |

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

  \$  300,210

# COUNTY OF MCHENRY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2007

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### SECTION II – FINANCIAL STATEMENT FINDINGS

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#### *FINDING 2007-1 – FINANCIAL REPORTING*

Recently a new auditing standard was issued that focuses on internal control, and what we communicate to you regarding your controls. Those requirements are set out in Statement on Auditing Standards No. 112, "*Communicating Internal Control Matters Identified in an Audit.*"

The new standard clarifies some definitions and will promote more consistency in how weak areas in internal control are communicated by auditors to their clients.

*Internal control* is a process – affected by an entity's governing body, management, and other personnel – designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.

Internal control consists of five interrelated components:

- a. *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- b. *Risk assessment* is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
- c. *Control activities* are the policies and procedures that help ensure that management directives are carried out.
- d. *Information and communication* systems support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- e. *Monitoring* is a process that assesses the quality of internal control performance over time.

How does this affect the County of McHenry? The new standard required us to review many factors to determine if a material weakness exists within your county. There are three factors in particular which were evaluated under SAS 112 this year:

- *Financial Reporting* – The existence of material audit journal entries.
- *Financial Reporting* – The accuracy of the annual financial statements and footnotes.
- *Internal Control Documentation* – The availability of complete documentation of your system of internal control.

The result of our audit work indicated that we found two material journal entries to the county's records. One entry was an adjustment to the Valley Hi amount due from the State of Illinois. The other was an adjustment to the insurance incurred but not reported (IBNR) liability. Therefore, we are required to report a material weakness in financial reporting.

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2007

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

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##### *FINDING 2007-1 – FINANCIAL REPORTING (cont.)*

##### ***Management's Response by Linda Pyfer, Valley Hi Administrator:***

During the fiscal year ended November 30, 2006, a new method for calculating Medicaid payments for County facilities was implemented by the Illinois Department of Healthcare and Family Services (HFS). This new method was based on the Federal Medicare RUG rates that could be applied to Medicaid residents. The average Medicare rate for Medicaid residents in the facility on February 15th every year was reduced to 94%. This average rate would then be the basis for paying the facility for Medicaid. In addition, Valley Hi would have to repay HFS 40% of this estimated monthly amount.

Based on the above, Valley Hi would reserve this estimated amount. HFS would on a somewhat regular basis adjust the amount they would mandate that Valley Hi repay to the state. This recurring adjustment would be based on (1) the Estimated Medicaid days for the quarter, (2) the County contribution rate, (3) the average Medicare rate for Medicaid residents, and (4) paid Medicaid claims.

This calculation is on a cash basis, not an accrual basis. In addition, the days that are estimated can be too low. Valley Hi often has residents whose status is pending for Medicaid and once all the documentation is submitted and approved the facility can be paid under the Medicaid program. Until all claims are paid, HFS cannot accurately determine 40% of the payment amount. This is part of the reason that Valley Hi has a larger liability.

The liability that was set up for Valley Hi also recognized that for October 2006, the first month of the new method, no payment was requested by the State. This was never clear as to why the State would not request this amount. A liability of \$226,689 was established by Valley Hi for October 2006. This liability has been brought forward into 2007.

Valley Hi and its management company, Revere Healthcare, are of the opinion that a conservative approach to recording revenue was appropriate and that until HFS clarifies the situation, a liability still existed for October 2006. However, in recent months in discussions with Bill Dart of HFS, verbal assurances were given that the October 2006 liability would never be collected by HFS. Accordingly, we agreed to reduce the liability.

##### ***Management's Response by John Labaj, Associate County Administrator:***

The term Incurred But Not Reported (IBNR) has traditionally been used by the insurance industry to refer to reserves that are established for claims and/or events that have transpired, but have not yet fully matured. Therefore, there is a need to establish reserves to allocate funds to those expected, but not yet identified, losses. There is no universally accepted methodology in effect for determining IBNR valuations.

# COUNTY OF MCHENRY

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2007

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

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#### *FINDING 2007-1 – FINANCIAL REPORTING (cont.)*

#### *Management's Response by John Labaj, Associate County Administrator: (cont.)*

The current methodology for evaluating the County's IBNR was established in conjunction with the Auditor's Office in 2002. While some modifications to the analysis have been made over the years, the basic procedures are still in effect. This entails a valuation of current claims for amounts paid, outstanding, and incurred. A Loss Development Factor is then applied to amounts incurred to establish the Ultimate Loss of a claim, with the IBNR derived from the Ultimate Loss minus the Incurred Loss. A variation existed between the valuations of causality claims vs. worker's compensation claims. Virchow Krause requested that both claim categories use the same valuation method. That change led to an increase of \$153,020 in the total outstanding liability for causality claims and therefore a corresponding increase to the total estimated 2007 IBNR by a like amount.

Risk Management will use the same valuation method for both claims categories as verbally directed by Virchow Krause. Because there are no universally accepted means of IBNR valuation, Risk Management requests that Virchow Krause provide written directions for future IBNR valuations. Depending on the level of analysis required, the County may explore the option of engaging an actuarial firm to perform future IBNR valuations.

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### SECTION III – FEDERAL FINDINGS AND QUESTIONED COSTS

---

#### *FINDING 2007-2 – VACCINATION ASSISTANCE – CFDA #93.268*

#### *Criteria:*

In order for children to receive vaccinations, certain eligibility criteria, as outlined in the program requirements, must be met.

#### *Condition:*

In our testing, 3 out of 32 patient files did not contain documentation which would support the patients' eligibility to receive vaccinations under this program. Since this documentation was not included in the patient file, we were unable to determine if the patient was eligible to receive the vaccination.

#### *Effect:*

Ineligible children could have received vaccinations.

#### *Recommendation:*

We recommend that documentation of eligibility be retained in all patient files.

## COUNTY OF MCHENRY

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2007

---

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

---

##### *FINDING 2007-2 – VACCINATION ASSISTANCE – CFDA #93.268 (cont.)*

##### ***Questioned Costs:***

Not able to determine.

##### ***Management's Response by Pam Morzos, Clinic Supervisor:***

We believe these three cases were isolated instances. The following internal controls help to ensure that adequate documentation is maintained to demonstrate compliance with the eligibility requirements of this program.

All immunization staff are required to review clinic policies on an annual basis following scheduled policy and procedure program review in February, or sooner for a new policy, or if an unscheduled revision is made. Policies are then routed to employees who sign a log to verify that they have read and reviewed the policies.

MCDH Immunization clinic Policy 6001.7 outlines criteria for eligibility of VFC vaccine and references the current CDC attachment entitled VFC: Eligibility Criteria.

Following vaccine assistance audit on 4/10/2008, the outcome was shared with clinical staff at a meeting on 4/15/08. The importance of accuracy and completeness of records was stressed to the nursing staff, with emphasis on immunization clinic forms and criteria of the VFC program.

A quarterly audit of the immunization clinic forms is routinely performed by staff. In addition, at the end of each clinic, the immunization clerical staff and/or the lead nurse are reviewing forms for any missing information or discrepancies that can be addressed and/or corrections made if indicated. This additional check of records should enable us to demonstrate accuracy and eligibility prior to records being entered into the State of Illinois I-CARE registry and scanning into our OnBase record retrieval system.



PAM PALMER  
County Auditor

JIM BERNIER  
Sr. Accountant/Chief  
Deputy Auditor

PHONE: 815 334-4204  
FAX: 815 334-4621

CORRECTIVE ACTION PLAN  
November 30, 2007

**FINDING 2007-1 – FINANCIAL REPORTING**

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**FINDING 2007-1 – FINANCIAL REPORTING (Continued)**

**Response by Linda Pyfer, Valley Hi Administrator**

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**Criteria:**

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**Condition:**

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**Effect:**

Ineligible children could have received vaccinations.

**Recommendation:**

We recommend that documentation of eligibility be retained in all patient files.

**Questioned Costs:**

Not able to determine.

**Response by Pam Morzos, Clinic Supervisor**

We believe these 3 cases were isolated instances. The following internal controls help to ensure that adequate documentation is maintained to demonstrate compliance with the eligibility requirements of this program.

All immunization staff are required to review clinic policies on an annual basis following scheduled policy and procedure program review in February or sooner for a new policy or if an unscheduled revision is made. Policies are then routed to employees who sign a log to verify that they have read and reviewed the policies.

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Following vaccine assistance audit on 4/10/2008, the outcome was shared with clinical staff at a meeting on 4/15/08. The importance of accuracy and completeness of records was stressed to the nursing staff, with emphasis on immunization clinic forms and criteria of the VFC program.

A quarterly audit of the immunization clinic forms is routinely performed by staff. In addition, at the end of each clinic, the immunization clerical staff and/or the lead nurse are reviewing forms for any missing information or discrepancies that can be addressed and/or corrections made if indicated. This additional check of records should enable us to demonstrate accuracy and eligibility prior to records being entered into the State of Illinois I-CARE registry and scanning into our OnBase record retrieval system.



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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
November 30, 2007

**FINDING 06-1 - PROPERTY TAXES COLLECTED FOR OTHERS**

The County is responsible for collecting real estate taxes for itself as well as numerous cities, villages and towns. Property tax ordinances from all of the taxing districts within McHenry County are sent by the taxing districts to the County Clerk's office. The tax levies (dollars) are entered into the County's tax system, and a report is generated that is sent back to each taxing district for verification. Once those dollar levies have been approved by the taxing district, the tax rates are computed by dividing the levy request by the equalized assessed value for each district. If the calculated rate is greater than the legal statutory maximum under State Statutes, the County uses the legal maximum rate instead of the rate requested by the taxing district. The County Clerk's office has some safeguards and review procedures that may not be functioning properly.

Specifically, it appears from our review of the tax calculation process that the rates used for some home rule communities are not being properly applied. As we understand the rules, the tax rate cap for some levies under State Statutes does not apply to home rule communities. However, the tax rates applied by the Clerk's office for at least one home rule community appear to have been adjusted downward to the state cap. If our understanding is correct, the County would be under-collecting property taxes for some taxing districts. We are uncertain of the financial impact to the County.

**Recommendation**

We recommend that the County should research its current tax calculation process compared to the legally required methodology to determine whether or not the process complies with current requirements. If it does not, then the County should determine what actions may be necessary to deal with prior year levies and collections, as well as improvements needed going forward. The County will need to communicate these issues to any affected communities.

**Corrective Action Taken During Fiscal Year 2007**

As previously stated in the correction action plan, this instance was an isolated case. There is only one unit of government, in McHenry County, that falls under home rule status and under the percentage of burden formula. The situation has been corrected beginning with the extension of the 2006 tax year, collected in 2007.

The County made a decision to go with a new vendor and tax software package. The system we were operating under for the 2005 tax year, collectible in 2006 required that certain procedures had to be done manually. The software used for the said tax cycle did not allow jurisdictions that were taxed, using a percentage of burden, certified by the State Department of Revenue to be automated. Only one home rule unit of government fell into this category. This procedure has been automated starting with the 2006 tax year, collectible in 2007.

The safeguard and review procedures, in place, in the County Clerk's office is and has been to send all tax rates and tax extensions to all units of government for their approval. Until approval is given, tax extensions are not turned over to the Treasurer's office for collection. This includes all home rule units of government and all units of government that have taxes calculated under a percentage of burden formula. All approvals have been given and are on file in the Clerk's office.