COUNTY OF MCHENRY

REPORT ON FEDERAL AWARDS

For the Year Ended November 30, 2008

COUNTY OF MCHENRY

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For the Year Ended November 30, 2008

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Virchow Krause & company

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, 2008, which collectively comprise the County of McHenry's basic financial statements and have issued our report thereon dated May 14, 2009. 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 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 2008-1.

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. We believe that the significant deficiency identified above is not 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, 2009.

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.

Virchow, Krause + Company, LLP

Madison, Wisconsin
May 14, 2009

Virchow Krause & company

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, 2008. 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.

The County of McHenry's basic financial statements included the operation of the Conservation District, which received $986,380 in federal awards which is not included in the schedule of expenditures of federal awards for the year ended November 30, 2008. Our audit, described below, did not include the operations of the Conservation District because the component unit had a separate audit in accordance with OMB Circular A-133.

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, 2008.

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, 2008, which collectively comprise the County of McHenry's basic financial statements and have issued our report thereon dated May 14, 2009. 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

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 19, 2009, except for the schedule of expenditures of
federal awards, as to which the date is May 14, 2009

COUNTY OF MCHENRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended November 30, 2008

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 - 2008)	10.557	*	811G8340900	$ 536,100	$ 337,587
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC - 2009)	10.557	*	911GK340900	563,200	211,856
Special Supplemental Nutrition Program for Women, Infants, and Children (Noncash Food Instruments - 2008)	10.557	*	n/a	-	952,333
			10.557 - subtotal	1,099,300	1,501,776
WIC Farmers' Market Nutrition Program - 2009	10.572		911GK340920	1,000	1,000
Passed through Illinois Department of Public Health					
Summer Food Service Program for Children - 2008	10.559		n/a	150	150
Total U.S. Department of Agriculture				1,100,450	1,502,926
Department of Commerce					
Passed through Illinois Emergency Management Agency					
Public Safety Interoperable Communications Grant Program	11.555		PSICMCHE	5,100,000	170,549
Total Department of Commerce				5,100,000	170,549
U.S. Department of Housing and Urban Development					
Community Development Block Grant (CDBG)					
2004	14.218		B04UC170007	1,518,000	2,228
2006	14.218		B06UC170007	1,327,397	90,096
2007	14.218		B07UC170007	1,339,291	412,621
			14.218 - subtotal	4,184,688	504,945

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MCHENRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended November 30, 2008

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 (cont.)				
Housing Investment Partnership Program (HOME)				
2003	14.239	M03UC170219	$ 551,423	$ 29,507
2004	14.239	M04UC170219	620,074	35,026
2005	14.239	M05MC170219	551,904	58,453
2006	14.239	M06UC170219	508,973	34,400
		14.239 - subtotal	2,232,374	157,386
Total U.S. Department of Housing and Urban Development			6,417,062	662,331
U.S. Department of Justice				
Grants to Encourage Arrest Policies & Enforcement of Protection Orders	16.590	2006-WE-AX-0044	371,851	125,367
Bureau of Justice Assistance				
State Criminal Alien Assistance Program (SCAAP)	16.606	n/a	144,931	77,082
Passed through Illinois Criminal Justice Authority				
Edward Byrne Memorial Formula Grant Program - 2008	16.579	405224	83,394	83,394
Total U.S. Department of Justice			600,176	285,843
U.S. Department of Labor				
Passed through Illinois Department of Commerce and Economic Opportunity				
Workforce Investment Act				
Trade Adjustment Assistance	17.245	06-661002	269,447	83,860
Trade Adjustment Assistance	17.245	08-681002	135,300	20,031
		17.245 - subtotal	404,747	103,891

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MCHENRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended November 30, 2008

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 (cont.)						
Passed through Illinois Department of Commerce and Economic Opportunity (cont.)						
Workforce Investment Act (cont.)						
WIA Adult Program - 2007	17.258	*	@	07-681002	$ 342,105	$ 261,030
WIA Adult Program - 2008	17.258	*	@	08-681002	325,703	97,359
WIA Adult Program - (Program Income - 2007)	17.258	*	@	n/a	n/a	2,820
WIA Adult Program - (5% Local Board Support)	17.258	*	@	06-631002	12,193	8,080
WIA Adult Program - (10% Statewide Activites)	17.258	*	@	06-676102	18,276	13,206
WIA Adult Program - (High Speed Internet II)	17.258	*	@	07-630202	2,027	2,027
WIA Adult Program - (Tech Assistance)	17.258	*	@	07-631002	3,601	3,601
WIA Adult Program - (5% Local Board Support)	17.258	*	@	07-637002	5,859	5,562
				17.258 - subtotal	709,764	393,685
WIA Youth Activities - 2007	17.259	*	@	07-681002	485,142	297,247
WIA Youth Activities - 2008	17.259	*	@	08-681002	389,868	142,181
WIA Youth Activities - (Program Income - 2007)	17.259	*	@	n/a	n/a	3,999
WIA Youth Activities - (5% Local Board Support)	17.259	*	@	06-631002	17,126	11,459
WIA Youth Activities - (10% Statewide Activites)	17.259	*	@	06-676102	25,712	18,728
WIA Youth Activities - (High Speed Internet II)	17.259	*	@	07-630202	2,874	2,874
WIA Youth Activities - (Tech Assistance)	17.259	*	@	07-631002	5,107	5,107
WIA Youth Activities - (5% Local Board Support)	17.259	*	@	07-637002	7,013	6,657
				17.259 - subtotal	932,842	488,252
WIA Dislocated Workers - (Rapid Response - 2007)	17.260	*	@	07-651002	145,096	145,096
WIA Dislocated Workers- (Trade Co-enrollment Case Mangement)	17.260	*	@	08-653002	56,000	43,310
WIA Dislocated Workers - 2007	17.260	*	@	07-681002	581,690	533,205
WIA Dislocated Workers - 2008	17.260	*	@	08-681002	674,301	177,301
WIA Dislocated Workers - (Program Income - 2007)	17.260	*	@	n/a	n/a	4,796
WIA Dislocated Workers - (5% Local Board Support)	17.260	*	@	06-631002	20,681	13,740
WIA Dislocated Workers - (10% Statewide Activites)	17.260	*	@	06-676102	31,012	22,456

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MCHENRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended November 30, 2008

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 (cont.)					
Passed through Illinois Department of Commerce and Economic Opportunity (cont.)					
Workforce Investment Act (cont.)					
WIA Dislocated Workers - (High Speed Internet II)	17.260	* @	07-630202	$ 3,447	$ 3,447
WIA Dislocated Workers - (Tech Assistance)	17.260	* @	07-631002	6,124	6,124
WIA Dislocated Workers - (5% Local Board Support)	17.260	* @	07-637002	12,128	11,514
			17.260 - subtotal	1,530,479	960,989
Total U.S. Department of Labor				3,577,832	1,946,817
U.S. Department of Transportation					
Passed through Illinois Department of Transportation					
State And Community Highway Safety					
State and Community Highway Safety - (IMAGE - 2008)	20.600		OP8-0056-288	45,255	36,658
State and Community Highway Safety - (IMAGE - 2009)	20.600		OP9-0056-007	51,869	8,418
State and Community Highway Safety - (SPEED - 2008)	20.600		SP8-0056-289	25,465	21,774
State and Community Highway Safety - (You Drink and Drive, You Lose - 2008)	20.600		AL8-0056-494	1,819	1,819
State and Community Highway Safety - (Child Safety Seat - 2008)	20.600		OP8-0056-015	9,000	9,000
			20.600 - subtotal	133,408	77,669
Passed through Illinois Emergency Management Agency					
Interagency Hazardous Materials Public Sector Training and Planning Grants - (HMEP - 2008)	20.703		08HMEPMCHE	2,489	2,489
Passed through Chicago Metropolitan Agency for Planning					
Highway Planning and Construction - 2008	20.205		08-SC-008	71,473	46,460
Highway Planning and Construction - 2009	20.205		09-SC-011	78,876	28,409
			20.205 - subtotal	150,349	74,869
Total U.S. Department of Transportation				286,246	155,027

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MCHENRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended November 30, 2008

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant/ Pass-through Grantors' Number	Program or Award Amount	Federal Expenditures
General Services Administration				
Passed through Illinois State Board of Elections				
Election Reform Payments	39.011	n/a	$ 231,342	$ 231,342
Total General Services Administration			231,342	231,342
U.S. Environmental Protection Agency				
Passed through Illinois Department of Public Health				
Performance Partnership Grants - (Potable Water - 2007)	66.605	75380173	20,463	5,175
Performance Partnership Grants - (Potable Water - 2008)	66.605	85380284	20,563	20,563
Total U.S. Environmental Protection Agency			41,026	25,738
U.S. Department of Education				
Passed through Illinois State Board of Education				
Special Education - Grants to States - 2008	84.027	65-108-1080-51	17,086	11,548
Special Education - Grants to States - 2009	84.027	65-108-1080-51	17,086	619
Total U.S. Department of Education			34,172	12,167
Election Assistance Commission				
Passed through Illinois State Board of Elections				
Help America Vote Act Requirements Payments	90.401	n/a	196,052	196,052
Total Election Assistance Commission			196,052	196,052

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MCHENRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended November 30, 2008

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 National Association of County and City Health Officials					
Medical Reserve Corps Small Grant Program - 2009	93.008		MRC 08 0084	$ 5,000	$ 5,000
Passed through Illinois Department of Children and Family Services					
Promoting Safe and Stable Families - (FCS - 2008)	93.556		5430078	44,712	32,140
Promoting Safe and Stable Families - (FCS - 2009)	93.556		5430079	44,265	23,858
			93.556 - subtotal	88,977	55,998
Adoption Assistance - 2008	93.659		5430028	16,819	3,038
Adoption Assistance - 2009	93.659		5430029	17,347	15,901
			93.659 - subtotal	34,166	18,939
Passed through Illinois Department of Public Health					
Project Grants And Cooperative Agreements For Tuberculosis Control Programs	93.116		n/a	8,603	8,603
Maternal and Child Health Services Block Grant to the States - (Oral Health - 2008)	93.994		83480166	6,880	6,880
Centers for Disease Control and Prevention-Investigations and Technical Assistance - (Breast & Cervical Cancer - 2008)	93.283		86180090	19,610	1,743
Centers for Disease Control and Prevention-Investigations and Technical Assistance - (Breast & Cervical Cancer - 2009)	93.283		96180093	257,490	85,081
			93.283 - subtotal	277,100	86,824
Public Health Emergency Preparedness - 2008	93.069	*	87181054	345,016	300,747
Public Health Emergency Preparedness - 2009	93.069	*	97181054	279,463	88,253
Public Health Emergency Preparedness - (Cities Readiness - 2008)	93.069	*	87181111	47,441	47,441
Public Health Emergency Preparedness - (Cities Readiness - 2009)	93.069	*	97181108	72,333	815
			93.069 - subtotal	744,253	437,256
Immunization Grants - (Noncash Assistance)	93.268		n/a	-	351,120

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MCHENRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended November 30, 2008

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					
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances - (McHenry Co Care - 2008)	93.104	*	840C8001456	$ 1,987,164	$ 1,026,748
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances - (McHenry Co Care - 2009)	93.104	*	940C8001456	1,607,529	567,404
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances - (Program Income)	93.104	*	n/a	-	3,105
			93.104 - subtotal	3,594,693	1,597,257
Maternal and Child Health Services Block Grant to the States - 2008	93.994		811G8340000	50,000	26,807
Maternal and Child Health Services Block Grant to the States - 2009	93.994		911GK340000	50,000	24,554
			93.994 - subtotal	100,000	51,361
Social Services Block Grant - 2008	93.667	*	811G8340000	39,400	39,400
Social Services Block Grant - 2009	93.667	*	911GK340000	39,400	17,417
Social Services Block Grant - (Title XX - 2008)	93.667	*	81X8041000	257,643	150,295
Social Services Block Grant - (Title XX - 2009)	93.667	*	81XK041000	257,643	107,349
			93.667 - subtotal	594,086	314,461
Temporary Assistance for Needy Families - (Front Door - 2008)	93.558		n/a	8,500	8,500
Temporary Assistance for Needy Families - (Front Door - 2009)	93.558		81XKFD0007	9,350	1,480
Temporary Assistance for Needy Families - (Teen Reach - 2008)	93.558		811G8341000	103,000	-
Temporary Assistance for Needy Families - (Teen Reach - 2009)	93.558		911GK341000	101,970	101,970
			93.558 - subtotal	222,820	111,950
Child Care and Development Block Grant - 2008	93.575		811G8340420	40,000	23,490
Child Care and Development Block Grant - 2009	93.575		911GK340420	40,000	17,052
			93.575 - subtotal	80,000	40,542

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MCHENRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended November 30, 2008

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 Healthcare and Family Services				
Medical Assistance Program	93.778	n/a	$ 134,956	$ 134,956
Child Support Enforcement	93.563	n/a	7,107	7,107
Passed through Illinois Public Health Association				
HIV Prevention Activities - Health Department Based - 2007	93.940	07 G75 2-003	29,994	1,926
HIV Prevention Activities - Health Department Based - 2008	93.940	08 G75 7-005	30,000	28,476
		93.940 -subtotal	59,994	30,402
Passed through Kane County				
Temporary Assistance for Needy Families - (Front Door - 2008)	93.558	n/a	216	216
Total U.S. Department of Health and Human Services			5,958,851	3,258,872
Corporation For National And Community Service				
Passed through Illinois Department of Human Services				
Americorps - 2007	94.006	711G7814000	72,473	2,194
Americorps - 2008	94.006	811G7814000	48,601	30,589
Americorps - 2009	94.006	911G7814000	199,724	43,469
Total Corporation For National And Community Service			320,798	76,252

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MCHENRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended November 30, 2008

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Grant/ Pass-through Grantors' Number	Program or Award Amount	Federal Expenditures
Department of Homeland Security				
Passed through Illinois Emergency Management Agency				
Disaster Grants - Public Assistance	97.036	n/a	$ 105,211	$ 105,211
Emergency Management Performance Grants - 2008	97.042	08EMA95	57,149	40,749
Emergency Management Performance Grants - 2009	97.042	09EMA95	56,949	9,500
		97.042 - subtotal	114,098	50,249
Passed through Illinois Emergency Services Management Association				
Homeland Security Grant Program	97.067	07IESMA EOC	14,984	14,984
Total Department of Homeland Security			234,293	170,444
Total Expenditures of Federal Awards			$ 24,098,300	$ 8,694,360

* 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, 2008

NOTE 1 – REPORTING ENTITY

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 did not receive any federal awards during the year.

Federal awards received by the Conservation District are not included in this report since the Conservation District has been audited by other auditors for their grants and those amounts are reported in a separate report.

NOTE 2 – BASIS OF PRESENTATION

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.*

NOTE 3 – NONCASH PAYMENTS

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, 2008 was $447,591. Of this amount, $149,421 remained unused, and was included as inventory at November 30, 2008.

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, 2008 were $952,333.

COUNTY OF MCHENRY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended November 30, 2008

NOTE 4 – FEDERAL PROGRAM CLUSTER

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

CFDA No.	WIA Cluster	
17.258	WIA Adult Programs	$ 393,685
17.259	WIA Youth Activities	488,252
17.260	WIA Dislocated Workers	960,989
	Total	$ 1,842,926

NOTE 5 – SUBRECIPIENTS

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

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Community Development Block Grant (CDBG)	14.218	$ 398,602
Home Investment Partnership (HOME)	14.239	113,187
Social Services Block Grant – Title XX	93.667	257,644
Child Mental Health Service Initiative	93.104	682,949
Temporary Assistance to Needy Families	93.558	101,970
Total		$ 1,554,352

COUNTY OF MCHENRY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended November 30, 2008

SECTION I – SUMMARY OF AUDITORS' RESULTS

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)? ____ 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? ____ yes __X__ no

Auditee qualified as low-risk auditee? ____ yes __X__ no

Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
17.258, 17.259, 17.260	Workforce Investment Act Cluster
93.069	Public Health Emergency Preparedness
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances
93.667	Social Services Block Grant

Dollar threshold used to distinguish between type A and type B programs: $ 300,000

SECTION II – FINANCIAL STATEMENT FINDINGS

FINDING 2008-1 – INTERNAL CONTROLS

The following internal control weaknesses were identified during the audit.

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.

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. The bank reconciliations for these accounts should be independently reviewed by someone other than the preparer on a regular basis, depending upon the activity in the accounts. Those with significant activity should be independently reviewed every month.

VALLEY HI RECEIVABLES

- An employee at Valley Hi is currently responsible for invoicing for hospice care, private pay, Medicaid, and other receivables. This same employee is also responsible for collecting the payments, preparing the deposit made with the County Treasurer's office, and has access to the financial reporting system. This results in a segregation of duties issue.

Recommendation

We recommend the county review these control deficiencies to determine if changes can be implemented.

Management's Response

VENDOR APPROVAL

Response by Cathy Link, Director of Purchasing

McHenry County has some good controls in place for the entry of new vendors into the County's accounting and purchasing systems. All new vendors are entered by the Purchasing Department after on-line requests are forwarded by the County's departments who need vendors to be added to the system for ordering or payments. Changes to the vendor files are either initiated by the individual Department, through corrections noted by the audit of invoices by the Auditor's Office, or by documents or application form received by the Purchasing Department. The Purchasing Department is currently working on a project to clean-up the present vendor system, with assistance from the County Auditor. When a new vendor is requested to be added to the system, a W-9 form is faxed or sent out by Purchasing and the completed form is attached to the vendor record in the software system.

SECTION II – FINANCIAL STATEMENT FINDINGS (cont.)

FINDING 2008-1 – INTERNAL CONTROLS (cont.)

Management's Response (cont.)

VENDOR APPROVAL(cont.)

Response by Cathy Link, Director of Purchasing (cont.)

However, it is agreed that some further controls should be put in place to ensure that verification is performed on vendors. There will be a revision to the on-line Vendor Request Form with a field for verification by the department. The Purchasing Department will ensure that all W-9 forms are received back on a timely basis, or the vendor number will be put on hold until it is received. Additionally, the Purchasing Department will scrutinize any vendors with a P.O. Box for an address or those who do not supply a phone number. The Auditor's Office will continue to conduct audits of the vendor list.

DECENTRALIZED BANK ACCOUNTS

Response by Pam Palmer, County Auditor

The majority of the bank accounts held by the County are under the control of the Treasurer. The reconciliations for these accounts are performed by Treasurer's staff on a timely basis and are reviewed and signed off by a supervisor. In addition to these bank accounts, there are a few bank accounts that have been established within elected official's offices per their statutory duties and are reconciled by their staff. To strengthen the internal controls over decentralized bank accounts, the Auditor's Office will endorse that the following additional procedures be performed: On a monthly basis, a supervisory employee will review and sign off on the reconciled bank statement. On a quarterly basis (February, May, August, November), the final monthly reconciliation of that quarter will be forwarded to the Auditor's Office to be reviewed by the County Auditor. These reviews should produce effective controls over the decentralized bank accounts. This procedure will also be documented in the McHenry County Accounting and Reporting Manual maintained by the Auditor's Office.

VALLEY HI RECEIVABLES

Response by Bob Yearian, Valley Hi Administrator

Segregation of duties has been re-established. Different staff will accomplish tasks such that the same employee will not be collecting payments and making entries to the financial system. These tasks had been segregated previously. However, due to certain staff vacancies in 2008, due to resignation and FMLA, the tasks had to be temporarily re-assigned.

SECTION III – FEDERAL FINDINGS AND QUESTIONED COSTS

None

PAM PALMER
County Auditor

JIM BERNIER
Sr. Accountant/Chief
Deputy Auditor

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CORRECTIVE ACTION PLAN
November 30, 2008

FINDING 2008-1 – INTERNAL CONTROLS

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FINDING 2008-1 – INTERNAL CONTROLS (Continued)

VENDOR APPROVAL (Continued)

Response by Cathy Link, Director of Purchasing (Continued)

However, it is agreed that some further controls should be put in place to ensure that verification is performed on vendors. There will be a revision to the on-line Vendor Request Form with a field for verification by the department. The Purchasing Department will ensure that all W-9 forms are received back on a timely basis, or the vendor number will be put on hold until it is received. Additionally, the Purchasing Department will scrutinize any vendors with a P.O. Box for an address or those who do not supply a phone number. The Auditor's Office will continue to conduct audits of the vendor list.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
November 30, 2008

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.

FINDING 2007-1 – FINANCIAL REPORTING (Continued)

Corrective Action Taken During Fiscal Year 2008

Valley Hi Journal Entry

The audit adjustment that was recorded at November 30, 2007 related to Valley's Hi calculation of the amount payable to the Illinois Department of Healthcare and Family Services (HFS) for Medicaid payments. The calculation of this amount included a high level of uncertainty, for reasons detailed in the following paragraphs. We agreed with Virchow Krause that the audit adjustment was appropriate, based on the best information that was available at that time, in accordance with accounting principles for the recording of contingencies and liabilities. Because a high level of uncertainty still exists for this calculation, Valley Hi will carefully consider all current and relevant information and will follow the accounting guidelines recommended by Virchow Krause in recording the liability at November 30, 2008.

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 is appropriate and that until HFS clarifies the situation, a liability still exists for October 2006. Currently, HFS has not made a final determination on whether the October 2006 liability will be collected.

IBNR Journal Entry

The audit adjustment that was recorded at November 30, 2007 related to the County's liability for claims and judgements payable. In recording the outstanding claims component of the liability, the County uses figures from a report prepared by a third party administrator. However, the County inadvertently pulled an incorrect set of numbers from the report, which necessitated the audit adjustment. To ensure the proper recording of the liability for claims and judgements payable at November 30, 2008, the County implemented a new internal control procedure. A review is now performed, by personnel other than the original preparer, to ensure that the figures used for outstanding claims agree to the correct set of figures from the report prepared by the third party administrator.

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.

Questioned Costs:

Not able to determine.

Corrective Action Taken Duriug Fiscal Year 2008

We believe these 3 cases were isolated instances. Following the audit, the above results were shared with all clinical staff. 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. Additionally, 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.

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.