

FINANCE AND AUDIT COMMITTEE
McHenry County Government Center – Administration Building
667 Ware Road
Woodstock IL 60098

MINUTES OF TUESDAY, SEPTEMBER 13, 2011

Mr. Breeden, Chairman called the meeting to order at 9:38 a.m. The following Committee members were present: Scott Breeden; John Hammerand; Jim Heisler; Mary McCann; Mary Donner and Bob Bless. Tina Hill arrived at 9:50a.m. Also in attendance: Pete Austin, County Administrator; Ralph Sarbaugh, Associate County Administrator-Finance; John Labaj, Deputy County Administrator; Pam Palmer and Shannon Teresi, Auditor; Cindy Kozlowski, Financial Analyst; Sandy Lewis, Mental Health; Maryanne Wanaski, Community Development; Evert Evertsen, Hartland Township Supervisor; and the press.

Scott Breeden, Chairman	
Bob Bless	Mary L. Donner
John Hammerand	James Heisler
Tina Hill	Mary McCann

MINUTES

Committee members reviewed the committee minutes of August 23, 2011. Mr. Heisler made a motion, seconded by Mr. Bless to recommend approval of the above minutes as presented. The motion carried with all members present voting aye on a voice vote.

PUBLIC COMMENT

None

PRESENTATION

None

NEW BUSINESS

Resolution to Approve Appointment of Members to an Expanded Board of Review for Assessment Year 2011: Mr. Heisler made a motion, seconded by Mr. Bless recommending approval of the above Resolution as presented. Mr. Hammerand noted that the above request is a sign that there has been a failure to reassess properties to their true market value. He stated that they need to make sure all the properties that have a similar likeness are taxed the same. He stated some prices for some of the properties were increased so much that they now vary greatly. It was stated the County's problem is the mass of people coming before the Board of Review. It was stated that there is a distortion of properties they need to look at. Some of these properties are being devalued by 7% and this devaluation is not true, it was stated that these properties have decreased by as much as 50%, not just 7% as devalued by the Assessors. He stated that a 20% to 30% devaluation would be a very conservative decrease to the value of the properties and we need to make sure that the decrease is fair and equitable. The motion carried with all members present voting aye on a roll call vote (Bless, Donner, Hammerand, Heisler, McCann, Breeden) Ms. McCann noted that she voted aye with reservations as she feels a special qualifier is needed for the western area of the County.

Resolution Authorizing Monthly Transactions for the Delinquent Tax Program: Ms. Donner made a motion, seconded by Mr. Bless recommending approval of the above Resolution as presented. The motion carried with all members present voting aye on a roll call vote (Bless, Donner, Hammerand, Heisler, McCann, Breeden)

Ms. Hilled arrived at 9:50a.m.

Resolution Authorizing Approval to Enter into a Contract with Mullins & Lonergan Associates for the Preparation of an Analysis of Impediments to the Fair Housing Choice: Mr. Bless made a motion, seconded by Ms. Donner to recommend approval of the above Resolution as presented. Ms. Wanaski and Mr. Evert Evertsen joined committee members for presentation of this Resolution. Mr. Evertsen will be the liaison for this project. Ms. Wanaski stated that the County is required to provide an updated Analysis of Impediments as mandated under the Federal Fair Housing Act. She stated that the County last conducted an Analysis of Impediment study in 1997, based on 1990 data. With such antiquated data the County is at risk of being subjected to legal ramifications from the federal government as many of our neighboring entitlement counties and jurisdictions have been. Committee members questioned what would happen if there are negative aspects to the report. Ms. Wanaski stated that it will be a negative report as it will tell where the County lacks in fair housing. The report will include weaknesses and address how to move forward. It was stated that this plan should be updated every 5 years. Now that census

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numbers are being released the plan should include more accurate data. Mr. Evertsen stated that he reviewed the proposals received from the RFP. He noted that after extensive review of each proposal, both he and staff recommended the same company. He stated that the company chosen had a highly superior methodology than the other proposals submitted. It stated that some of the companies copied their reports from another area.

The analysis will include all municipalities. Committee members were informed that they are starting to work with the municipalities on this project. The Municipalities will be able to pass their own Analysis or join onto the County's. The motion carried with all members present voting aye on a roll call vote (Bless, Donner, Hammerand, Heisler, McCann, Breeden)

FY11-12 Budget Reviews (not in packet) Non-Departmental: Mr. Sarbaugh joined committee members for presentation of the Non-Departmental budget. He informed committee members that there are two non-departmental budgets. One is used to pay for the debt service payments the second one is for payments from the General Fund. This fund also pays for the cost of the employee health insurance. This budget is also where merit funds are held until it is distributed in total. If a position is frozen these funds are rolled back into the general fund. He noted that none of the proposed merit increases are distributed until the budget is approved.

Ms. Hill noted that she had a conversation with Mr. LeFew on some new proposed legislation that would require the Treasurers' office automate the tax sale process. Ms. Hill stated that she has sent in a legislative intent request on this issue. This could be a costly requirement if that is the intent of the legislature.

Mr. Sarbaugh noted that the commodities are where some of the lease payments come from. Capital outlay is for the purchase of vehicles, computer technology, debt service payments on the laptops, workstations and tough book purchases for the squad cars. Committee members questioned what the \$6,000,000 request is for. Mr. Sarbaugh stated that the majority of this request is for IT. This includes requests that will be needed in the future as well. Mr. Sarbaugh stated that a second non-departmental fund was created so that the departments could not spend general fund monies without knowing they did so. In the past they had access to the General Fund account. Committee members reviewed the RTA Sales Tax, County Portion. It was stated that these funds are not part of the General Fund. They have had a request from the Division of Transportation to transfer out \$9,276,200 of these funds. Committee members were informed that the County Board can discuss if these funds should be used for Transportation or Public Safety. They were informed that Kane County uses 15% of these funds for Public Safety while DuPage County uses 100% of the funds for Public Safety. Committee members were reminded that if the Division of Transportation wants to spend any RTA Tax monies, they would have to come before this committee for approval. Committee members thanked Mr. Sarbaugh for this information.

Committee members were reminded that there will be a lot of the debt certificates rolling off the books in the next couple of years. Options will need to be reviewed to see where to expend funds if the reserve should get too high. Payments for the debt certificates have been made out of the operating budget, which provides flexibility in the operating budget. When the debt certificates were issued, there was no direction of where to make these payments from. When the economy was good, this was not a problem, now they need to change on how to pay for these debts.

REPORTS TO COMMITTEE, AS APPLICABLE

Auditor's Report: Ms. Palmer informed committee members that they continue to work on the Internal Control Report for Valley Hi. She noted that the IT Audit completed by Baker Tilly and Virchow will be forwarded to the committee members prior in advance of the next committee meeting for review.

She reported that they are working on a "test" for the election judges. She stated that they wanted to make sure the accounting system was set up so they can upload information from the County Clerk in order to get speedier payments to these individual for work done for the department.

Ms. Teresi joined committee members to discuss their annual audit plan. She stated that she is charged with the responsibility to audit internal controls so that recommendations can be made on weaknesses found. These audits are also used to make sure the internal controls are working effectively or have been put into place. Committee members were informed that the outside auditors use these audits in order to review these internal controls. The External Auditors have stated that they wished all their clients documented their internal controls. Control numbers are provided for each control with an objective and any associated risks.

Approved 09 27 11

These controls are required by Auditor Standards and if they were not being done by staff, the outside auditors would be required to do them which saves the County money.

Ms. Teresi stated she has been working with Valley Hi on their private pay accounts. All accounts for the facility were reviewed and investigated to make sure all past due accounts are billed and funds collected. She spoke about the Internal Audit Division's responsibility of maintaining the County's IC (internal control) documentation including work that was completed at Valley Hi related to documenting their ICs and the IC recommendations that were made.

It is the internal audit division's responsibility to document internal controls; however, it is each department's management responsibility over making sure their internal controls are working effectively and that the proper ICs are in place to meet the department's objectives. When working with supervisors and department heads; she really tries to stress their responsibility over their internal controls.

The external auditor's uses the County's IC documentation each year to:

1. Properly plan their audits,
2. Understand our financial processes, and
3. To understand what internal controls are have in place to mitigate financial risk.

Also, this saves time by the external auditors, so they don't have to spend so much time just learning about our procedures and internal controls. They can go straight to more pointed issues.

The new IC matrixes have been greatly expanded from the original matrixes. She has added the following columns:

- Control # - This gives a unique # to each control.
- Control objective – identifies what the control is trying to accomplish.
- Associated Risk – identifies the risks that may affect each area. In my audit reports, I identify the inherent risks in each area. If we had no controls in place or if they were not working effectively then what is the possible risks the County faces.
- Control owner – identifies who is ultimately responsible for the control operating effectively.
- Relevant Assertions – identifies what six financial statement assertions the internal control applies to.

For example, an associated risk related to Valley Hi is that private pay receivables may not be collected. The control procedure is that all accounts are reviewed and any discrepancies are investigated and phone calls are made to residents' families. The control objective is to ensure all past due accounts are valid and collected, if possible. The process procedure is that private pay residents are billed on the 8th business day of each month. A relevant assertion is Valuation and Allocation, which means are we valuing private pay account receivable correctly.

She spent significant time developing several areas of the County's documentation including:

1. Entity level controls- which identifies things such as our control environment and our risk assessment.
2. Financial close and reporting – which was created to document our financial narratives in our IC documentation.
3. Accounts payable – was greatly expanded.
4. Payroll - was updated prior to the external auditor's review this past spring to assist them in identifying some internal control deficiencies. Some comments that she had on our matrix ended up being valid internal control concerns by the external auditor's as well.
5. HR matrix –was updated as part of my recent audit that was completed, which will be presented shortly. To put this in perspective, the changes that were made documenting HR's internal controls; the County had identified two ICs in the original documentation and after my review, there is now 17 identified ICs.
6. She stated that she is almost complete with DOT's IC review, which I will go over with you hopefully in a couple weeks.
7. She created another new tab called stale dated checks, which addresses some of the related risks. She met with our Financial Reporting Manager, Jim Bernier and Glenda Miller, the chief deputy in the

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- 8. Treasurer's Office to understand the County's procedures related to stale dated checks. There were no IC recommendations at that time, but it may be a good area for a future audit.
- 9. Several grant cycles were further defined including the Sheriff's Office grant reporting procedures.
- 10. There are other areas that she has identified that still need documentation is fixed assets and IT.

In the future, not as much of her time will be allocated to updating documentation, once the matrixes up to date. However, the matrixes are a working document and they are updated continually as new processes are developed and during audits. The internal audit division did not have a lot to start with related to financial procedures, so a lot had to be done over the past year.

Ms. Teresi stated that she spent a couple of half days out at Valley Hi interviewing the staff about their financial procedures. She worked with them to identify risks and to identify their mitigating internal controls. During the review she noted two IC recommendations.

First the Business Office Associate recorded related payments and deposited cash receipts. It is prudent business practice to segregate the two responsibilities or to provide additional oversight. It was also recommended that they have their responsibilities performed by someone else when they take vacations or are sick.

The second IC recommendation is all journal entries processed at Valley Hi should be reviewed by someone other than the preparer. Many journal entries can be complex and there is a risk that they can be incorrect or not authorized. This is something that Revere did in the past for Valley Hi. Also, the external auditors did have a comment in their informational report from 2009 that the County develops a policy requiring journal entry approval by someone other than preparer.

These recommendations were given to Mr. Annarella. He agreed to the comments and was planning on incorporating them into their procedures. He did state at the time of the review he had only been in his position less than a year and was still establishing some best practices. He was really appreciative of the assistance of review in this area.

She is currently following up on these recommendations to see how they were implemented. She will report on that next time when she presents DOT's internal control review.

Contingency Report: None.
Economic Development Corporation: None.

FUTURE TOPICS

Mr. Labaj informed committee members that he will be bringing a revolving loan request for Dura-Flex. He stated that this is a request for \$20,000 for the acquisition of equipment.

He stated that he also has three or four additional loan requests in the pipeline.

EXECUTIVE SESSION

None

ADJOURNMENT

Noting no further business, Mr. Hammerand made a motion, seconded by Ms. Hill to adjourn the meeting 11:00 a.m. The motion carried with all ayes on a voice vote.

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RECOMMENDED FOR BOARD/COMMITTEE ACTION:

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Approved 09 27 11