

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

MINUTES OF TUESDAY, SEPTEMBER 27, 2011

Mr. Breeden, Chairman called the meeting to order at 9:30 a.m. The following Committee members were present: Scott Breeden; John Hammerand; Jim Heisler; Mary McCann; Mary Donner and Tina Hill. Bob Bless was absent. 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; Bob Lessor, Mental Health; Phil Dailing, Court Services; Dennis Sandquist, Planning and Development; Bob Ellsworth, Emergency Management Agency; Tom Sullivan, IT; Ersel Schuster, County Board Member; Pam Cumpata, EDC; 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 September 13, 2011 and Joint Meeting of Finance and Audit and Law and Justice Committees of September 20<sup>th</sup>. Mr. Heisler made a motion, seconded by Ms. Donner 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

*FY2012 Budget Development:* Mr. Austin and Mr. Sarbaugh joined committee members regarding discussion that took place with Chairman Breeden on how the committee would like to present the FY2012 budget to the full County Board. They would like to present what the impact would be to the County by making various decisions with both the tax levy and pay down of the County's reserve. Committee members were provided with a budget program that balances the budget today, and restores funding to budgets, that were previously taken away. The 1.5% levy increase that is allowed by law protects the County against inflation. The new question arises, do we take the increase, which the County has always done to protect from inflation, and commit some of the reserve to the debt payments. That is the question before the committee today. In order to bring a balanced budget before the board, they discussed various scenarios. As a County they need to decide which direction to take, based on these options. Mr. Hammerand stated that he thought the board was clear when they stated they did not want to see an increase to the levy of 1.5%. He stated that they were also clear that they expected to see some other changes within the budget as well. Especially concerning increases and changes to some funding commitments. Some of these expenditures include lobbyist costs and optional expenditures. Committee members were reminded that the biggest expense in the budget is for personnel. It was stated that the extra "fringes" need to be eliminated to the budget in order to decrease the budget by the 1.5 million as discussed at the County Board meeting. Committee members were reminded that there are only a few optional "fringes" within the budget. These involve five or six items, including but not limited to the EDC, Convention and Visitors Bureau, Cooperative Extension Service, the Lobbyist and Soil and Water. This would only remove about \$500,000 from the budget. The budget still would not be balanced, even if all these items were removed.

Committee members were reminded that there were no raises provided to the non-union employees last year. Ms. Donner stated that she feels it is important to prioritize raises for these non-union employees. She stated that she feels it would be totally inappropriate to consider no raises for the employees. As a trustee she found out that it could cause major issues if the employees are not taken care of. She stated there could be unexpected consequences if these are zeroed out. While reviewing what the costs would be to the taxpayers it was found that this would result in 75 cents or less to each tax bill. If you give raises to employees this helps to grow the economy. She stated there would be a higher cost to replace trained personnel than to pay the employees their worth. Committee members were reminded that the Departments have reduced their budgets the past few years. Last year this resulted in \$6.5 million being taken out of the budget. The departments have reduced their budgets as much as they can. Committee members reviewed the affect on the future of the County if the 1.5% CPI is not taken. Over 10 years the County would lose about \$15,000,000. Not taking these funds would have a minor impact to a person's tax bill, but would have a dramatic effect to the County's budget if not taken. McHenry County has not run a "fat" organization. It was stated that they would like a consensus from the committee on the 1.5% tax levy. Committee members stated that this should be a discussion for the whole County Board. They were questioned if they don't go with the 1.5%, how is the budget to be balanced. Time is running out in order to make these decisions. Some of the debts can be retired. The debts were reviewed with the underwriter and he raised some valid issues that need to be considered. The economy is currently in a flux right now. It is unknown

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whether we are headed for another recession or if the economy will get even worse. If we pay down the whole debt, how will the county build up its reserves? But, if we slowly draw down the debt over the next seven to ten years, it would keep the reserves solid and allow for a conservative approach for future boards. Committee members voiced concern. They stated that as long as we keep the current good credit rating there is no reason to keep these funds in the bank. Committee members were reminded that as a County we have control over one income and that is the levy. Many of the accounts in the County are suffering and need to be built back up. The County Board has previously elected to keep a 5 to 6 month reserve and with 6.8 month reserve there are funds available to pay down the debts. We don't want to use these reserves for our operating costs and the County needs a certain amount of funds in order to pay for our costs of doing business. This is an opportunity to discuss what the role of County Government is. Staff questioned what the decision of the committee is as they need direction on this issue. Ms. Hill recommended that we keep the levy in place at 1.5% and only use the reserve in order to pay down the debt. This way the budget can be balanced and some supplemental requests can be accomplished. Mr. Austin noted that as the budget stands, there are millions of dollars of supplemental requests, with only \$100,000 to spend for a few of these requests. Within these requests are some unavoidable new expenses. Committee members were reminded that they need some options in place, especially if we don't take the 1.5%. Committee members stated that this is an issue that needs discussion by all of the County Board. They stated they do not find it effective to discuss these issues at a County Board meeting. It was suggested that a workshop be held to discuss all of the options surrounding the budget. Mr. Sarbaugh stated that they need to understand that the County Clerk has no choice but to strike the 1.5% levy. If the committee members wanted to see how the levy was "struck", they would have to look at the prior year to show how the 1.5% was offset. If for some reason it was -0-, he questioned what fund should the 1.5% come from? Committee members noted that this is the reason this workshop is needed. They stated that they would need a list of the programs and the funding tied to the programs in order to see where and if there are funds available. Committee members were reminded that the budget is identical to what it has been the past two years. The only items in the budget that has grown is for the cost of benefits and supplemental costs. Committee members requested a breakdown of the budgets for each of the departments. Mr. Sarbaugh reminded committee members that merit increases are not built into the General Fund department budgets. These funds are only awarded if the department should run out of personnel dollars. It was suggested that a memo be prepared from the Finance and Audit Chairman informing the County Board Members what was discussed today and informing them that a budget workshop will be scheduled for discussion within the next 10 days. Committee members were informed that additional meetings for Finance and Audit may be needed. Mr. Austin voiced concern regarding where to cut the budget and how to find funding for some of the critical needs. Committee members were reminded that we have requested the departments to give back to the County what they could and in return, when the economy started to bounce back we would address this issue. In 2009 they gave \$1.4 million dollars back. The last two years they have had more give back. There is no fat in these budgets and the departments are running thin. The County Board Members need to be aware of how these cuts have affected the departments. They will need to discuss the path to take with and without funding for these requests. Committee members stated that the whole county board needs to have the information that was passed out to the committee members today. It was suggested that a COW be scheduled after the Public Health and Human Services Committee meeting scheduled on October 7<sup>th</sup>. Committee members stated that the board needs to review some of the items that are funded by the County that is not required and a list of the services that could be impacted if funding was cut. This will be an opportunity for input from all of the County Board Members. They stated it would be nice if they could receive information prior to this meeting. The County Board has some large principle questions that need to be answered in order to move this budget forward.

### NEW BUSINESS

*Resolution Authorizing the Adoption of Senior Services Grant Fund Funding Allocations for Program Year 2012:* Ms. Hill made a motion, seconded by Ms. McCann recommending approval of the above Resolution as presented. Ms. Donner stated that she would be recuse herself on any vote or discussion for transportation as she is an employee of PACE. The motion carried with a majority of members present voting aye on a roll call vote (Hammerand, Heisler, Hill, McCann, Breedon) abstain Donner. Committee members noted that some of the programs were not funded and questioned why. Mr. Labaj noted that the commission did not want to use any of the funds where the programs may be duplicated or for programs that were already funded or similar to current programs. The request by the Village of Cary was for an upgrade to one of their facilities and the grant commission felt that this was a responsibility of the Village through their capital improvement program

Ms. Donner left committee at 10:30a.m.

*Resolution Authorizing an Emergency Appropriation of \$40,000 from the General Fund Reserves to Restore Funding to the Breast and Cervical Cancer Program (IBCCP) for FY2011:* Mr. Heisler made a motion, seconded by Ms. McCann recommending approval of the above Resolution as presented. Mr. McNulty joined committee members to request that the funding for the Breast and Cervical Cancer program that was removed during the previous budget process be

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restored in order to allow the continuation of services for this program. Committee members asked if they were to stay within the parameters of the grant. They were informed that a portion of the funding was removed during the previous budget cuts. Chairman Breeden stated he would be unable to support this request because when the County is having budget issues the County Board Members need to stand by their decisions. They previously reduced this budget because of this issue and now they are putting the funding back while we are still having budget problems. The motion carried with a majority of members present voting aye on a roll call vote (Heisler, Hill, McCann) nay (Hammerand, Breeden)

*Resolution Authorizing Acceptance of an Illinois Breast and Cervical Cancer Program (IBCCP) funding in the Amount of \$402,960 and Committing County Financial Support for FY2012:* Ms. McCann made a motion, seconded by Ms. Hill to recommend approval of the above Resolution as presented. Committee members were informed that this is an increase in funding from the previous year. During the year if another entity returns their funding, these funds get reallocated by the State. The increase in funding is from this reallocation. This was awarded because of the increased case load in our area. The motion carried with all members present voting aye on a roll call vote (Hammerand, Heisler, Hill, McCann, Breeden)

*Resolution Authorizing a Budget Line Item Transfer in the Planning and Development Departments FY2011 Budget:* Mr. Sandquist joined committee members for presentation of the above Resolution. Ms. McCann made a motion, seconded by Ms. Hill recommending approval of the above Resolution as presented. Mr. Sandquist stated that this is a request to transfer funds from within the budget. These funds will be moved from ZBA per diems into Stormwater Consulting. Because of a medical issue, they will be short staffed in the Stormwater area. The Department is requesting the line item transfer to allow the department to utilize a consulting engineer to review the stormwater permits and engineering plans during this period. The motion carried with all members present voting aye on a roll call vote (Hammerand, Heisler, Hill, McCann, Breeden)

*Discussion of Revolving Loan Fund Request from Millennium Electronics International, Inc.:* Mr. Labaj joined committee members to provide an update on the above Revolving Loan request. He stated that Millennium Electronics packet is not complete at this time so they will need to review this request at a future meeting. He stated that he has two other groups that will be putting in applications as well. Three requests will come before the committee at its next committee meeting. There is currently \$600,000 in the Revolving Loan Account.

### REPORTS TO COMMITTEE, AS APPLICABLE

*Auditor's Report:* Ms. Teresi joined committee members to discuss Division of Transportation's internal control report. She stated that she will review some of their procedures and sources of revenue as well as two internal control recommendations. She stated that she met with Mr. Korpalski, Mr. Young and Margie Newman to discuss and document their procedures for receiving, recording, depositing and reconciling revenue sources and their department specific procedures related to processing payables. They understood the reason for the need for their documentation to be accurate. This will also assist the outside auditors when they inquire about internal controls as well.

Ten main sources of revenue were identified for the Division of Transportation in comparison the original documentation only identified six revenue sources. The review process was effective in making sure that most of the department's financial procedures were documented.

During the review several internal controls were found that were not documented. Currently they have 22 controls documented. The original documentation only identified ten internal controls. The County's internal control documentation is constantly updated as procedures change. During future audits, they will look to see if any revisions or updates can be made to any of the internal control documentation. If controls are not in place correctly it could cause funds to be recorded incorrectly or misappropriated, funds could not be used for approved projects, invoices could be processed inaccurately or not approved, or a journal entry could be posted without adequate support or may be calculated incorrectly. Two internal control recommendations were suggested as well. One was that checks were being kept in an envelope at the employee's desk prior to a deposit being made. It was suggested that the checks and cash received be stored in a locked desk or safe. The department has already implemented this recommendation. The remaining control was the lack of segregation of duties between the custody of checks received, depositing of the checks and who performs the recoding and reconciling of the funds. It was recommended that these duties be separated, if possible. If they cannot be separated, a detailed supervisory review of related activities is required as a compensating control activity. The duties should also be rotated when an employee is on vacation or sick. They are still reviewing these duties and figuring out how they will address this recommendation. Ms. Teresi developed a spreadsheet to document the findings with suggested controls. She does provide follow-ups on all of the findings. This document is beneficial to the outside auditors as well. Committee members requested that these findings be presented to the

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Chairman of the standing committees. She stated that she does bring the audits to the department heads in order to address issues within the departments.

Ms. Palmer presented the recent financial audit from Baker Tilly Virchow Krause for the year ended November 30, 2010. During the audit, certain IT functions were recommended. Because these recommendations do not rise to the level of a significant deficiency or material weakness, they were not included in the report. The auditors found 14 items with recommendations in the report. Three issues were addressed and will be removed from next year's audit. The biggest risk found is for the Finance System. Each of the findings and the department's response were reviewed by the Committee. Ms. Palmer stated that there will be an additional audit for 2011 in the future for review.

*Contingency Report:* Committee members reviewed the Contingency Report as of 9/21/2011.

Mr. Sarbaugh stated that during last year's budget cycle he was directed to remove \$40,000 from the Health Departments budget for the Illinois Breast and Cervical Cancer Program funding. Now the committee has voted to put these funds back into the budget. The committee also directed the funding for FY2012 be put back into the department's budget as well. He questioned how this funding should be shown? Committee members suggested this be shown as an option for the COW. He stated that the \$40,000 would come from the reserves.

Mr. Sarbaugh reminded committee members that we are heading into the end of the fiscal year. As this occurs, budgets start getting tight. Resolutions will be brought forward for those budgets that may run short.

*Economic Development Corporation:* Ms. Cumpata stated that things are going well at the EDC. The manufacturers in the County are currently very busy. They are currently working on a labor study. Chairman Breeden stated that Ms. Cumpata has been spending a lot of time with a company in the county trying to keep this business running. He stated that he appreciates the attention being provided.

FUTURE TOPICS

EXECUTIVE SESSION

None

ADJOURNMENT

Noting no further business, Mr. Hammerand made a motion, seconded by Mr. Heisler to adjourn the meeting 11:20 a.m. The motion carried with all ayes on a voice vote.

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**RECOMMENDED FOR BOARD/COMMITTEE ACTION:**

- Resolution Authorizing the Adoption of Senior Services Grant Fund Funding Allocations for Program Year 2012
- Resolution Authorizing an Emergency Appropriation of \$40,000 from the General Fund Reserves to Restore Funding to the Breast and Cervical Cancer Program (IBCCP) for FY2011
- Resolution Authorizing Acceptance of an Illinois Breast and Cervical Cancer Program for FY2012
- Resolution Authorizing a Budget Line Item Transfer in the Planning and Development Department's FY2012 Budget

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