

COUNTY OF MCHENRY, ILLINOIS

REPORT ON FEDERAL AWARDS

For the Year Ended November 30, 2017

COUNTY OF MCHENRY

TABLE OF CONTENTS For the Year Ended November 30, 2017

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1 – 2
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3 – 5
Schedule of Expenditures of Federal Awards	6 – 10
Notes to Schedule of Expenditures of Federal Awards	11 – 12
Schedule of Findings and Questioned Costs	13 – 18

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

INDEPENDENT AUDITORS' REPORT

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

We have audited, in accordance with the 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, 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, 2017, and the related notes to the financial statements, which collectively comprise the County of McHenry's basic financial statements, and have issued our report thereon dated July 24, 2018. Our report includes 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. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Public Building Commission and Conservation District were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County of McHenry's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the County of McHenry's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of McHenry's financial statements are free from 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*.

The County of McHenry's Response to Findings

The County of McHenry's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The County of McHenry's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Chicago, Illinois
July 24, 2018

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

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

Report on Compliance for Each Major Federal Program

We have audited the County of McHenry, Illinois' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County of McHenry's major federal programs for the year ended November 30, 2017. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the County of McHenry's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the County of McHenry's compliance.

Opinion on Each Major Federal Program

In our opinion, the County of McHenry complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended November 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-003 and 2017-004. Our opinion on each major federal program is not modified with respect to these matters.

County of McHenry's Response to Findings

The County of McHenry's response to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County of McHenry's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the County of McHenry is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County of McHenry's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County of McHenry's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-004, that we consider to be a significant deficiency.

County of McHenry's Response to Finding

The County of McHenry's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The County of McHenry's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2017, and the related notes to the financial statements, which collectively comprise the County of McHenry's basic financial statements. We issued our report thereon dated July 24, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. Our report includes 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 the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Chicago, Illinois
August 20, 2018

County of McHenry, Illinois
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended November 30, 2017

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Agency	Grant Number	Federal Expenditures	Sub-recipient Expenditures
U.S. Dept. of Agriculture					
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC - 2017)	10.557	IL Dept. of Human Services	FCSVQ01062	\$ 376,844	\$ -
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC - 2018)	10.557	IL Dept. of Human Services	FCSWQ01062	246,005	-
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Breastfeeding Peer Counseling - 2017)	10.557	IL Dept. of Human Services	FCSVQ01156	20,249	-
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Breastfeeding Peer Counseling - 2018)	10.557	IL Dept. of Human Services	FCSWQ01156	11,310	-
Special Supplemental Nutrition Program for Women, Infants, and Children (Noncash Food Instruments - 2017)	10.557	IL Dept. of Human Services	n/a	834,176	-
Special Supplemental Nutrition Program for Women, Infants, and Children (Noncash Food Instruments - 2018)	10.557	IL Dept. of Human Services	n/a	553,372	-
			10.557 - subtotal	2,041,956	-
WIC Farmers' Market Nutrition Program - 2018	10.572	IL Dept. of Human Services	FCSWQ01244	994	-
Total U.S. Dept. of Agriculture				2,042,950	-
U.S. Dept. of Housing and Urban Development					
Community Development Block Grant (CDBG) - 2016	14.218	n/a	B-16-UC-17-0007	586,568	572,475
Community Development Block Grant (CDBG) - 2017	14.218	n/a	B-17-UC-17-0007	474,927	318,461
Total CDBG - Entitlement Grants Cluster			14.218 - subtotal	1,061,495	890,936
Housing Investment Partnership Program (HOME) - 2013	14.239	n/a	M-13-UC-17-0219	88,675	88,675
Housing Investment Partnership Program (HOME) - 2014	14.239	n/a	M-14-UC-17-0219	156,900	148,425
Housing Investment Partnership Program (HOME) - 2015	14.239	n/a	M-15-UC-17-0219	284,295	254,272
Housing Investment Partnership Program (HOME) - 2016	14.239	n/a	M-16-UC-17-0219	209,421	209,421
Housing Investment Partnership Program (HOME) - 2017	14.239	n/a	M-17-UC-17-0219	32,488	32,488
			14.239 - subtotal	771,779	733,281

County of McHenry, Illinois
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended November 30, 2017

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Agency	Grant Number	Federal Expenditures	Sub-recipient Expenditures
U.S. Dept. of Housing and Urban Development (Continued)					
Continuum of Care Program - 2015	14.267	n/a	IL0612L5T001500	\$ 26,396	\$ -
Continuum of Care Program - 2016	14.267	n/a	IL0644L5T001600	11,988	-
Continuum of Care Program - 2015 Homeless Management Information System	14.267	n/a	IL0610L5T001500	27,210	-
			14.267 - subtotal	65,594	-
Total U.S. Dept. of Housing and Urban Development				1,898,868	1,624,217
U.S. Dept. of Justice					
State Criminal Alien Assistance Program (SCAAP) - 2011	16.606	n/a	n/a	2,271	-
State Criminal Alien Assistance Program (SCAAP) - 2013	16.606	n/a	n/a	6,000	-
State Criminal Alien Assistance Program (SCAAP) - 2014	16.606	n/a	n/a	119	-
State Criminal Alien Assistance Program (SCAAP) - 2015	16.606	n/a	n/a	65,794	-
State Criminal Alien Assistance Program (SCAAP) - 2016	16.606	n/a	n/a	61,117	-
			16.606 - subtotal	135,301	-
Edward Byrne Memorial Justice Assistance Grant Program - 2017	16.738	IL Criminal Justice Information Authority	414024	66,715	-
Total U.S. Dept. of Justice				202,016	-
U.S. Dept. of Labor					
Trade Adjustment Assistance - 2017	17.245	IL Dept. of Commerce and Economic Opportunity	15-661002	77,842	-
Trade Adjustment Assistance - 2018	17.245	IL Dept. of Commerce and Economic Opportunity	16-661002	3,779	-
			17.245 - subtotal	81,621	-
WIOA Cluster					
WIOA Adult Program - 2015	17.258	IL Dept. of Commerce and Economic Opportunity	15-681002	5,006	-
WIOA Adult Program - (Incentive Funds)	17.258	IL Dept. of Commerce and Economic Opportunity	14-632002	1,160	-
WIOA Adult Program - 2016	17.258	IL Dept. of Commerce and Economic Opportunity	16-681002	247,852	-
WIOA Adult Program - (Program Income - 2016)	17.258	IL Dept. of Commerce and Economic Opportunity	n/a	40	-
WIOA Adult Program - 2017	17.258	IL Dept. of Commerce and Economic Opportunity	17-681002	84,812	-
			17.258 - subtotal	338,870	-

County of McHenry, Illinois
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended November 30, 2017

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Agency	Grant Number	Federal Expenditures	Sub-recipient Expenditures
U.S. Dept. of Labor (Continued)					
WIOA Youth Activities - 2016	17.259	IL Dept. of Commerce and Economic Opportunity	16-681002	\$ 411,141	\$ -
WIOA Youth Activities - (Incentive Funds)	17.259	IL Dept. of Commerce and Economic Opportunity	14-632002	1,968	-
WIOA Youth Activities - (Program Income - 2016)	17.259	IL Dept. of Commerce and Economic Opportunity	n/a	68	-
WIOA Youth Activities - 2017	17.259	IL Dept. of Commerce and Economic Opportunity	17-681002	98,137	-
			17.259 - subtotal	511,314	-
WIOA Dislocated Workers - 2015	17.278	IL Dept. of Commerce and Economic Opportunity	15-681002	11,209	-
WIOA Dislocated Workers - (Talent Pipeline)	17.278	IL Dept. of Commerce and Economic Opportunity	14-654038	129,462	-
WIOA Dislocated Workers - 2016	17.278	IL Dept. of Commerce and Economic Opportunity	16-681002	780,641	-
WIOA Dislocated Workers - (Incentive Funds)	17.278	IL Dept. of Commerce and Economic Opportunity	14-632002	2,746	-
WIOA Dislocated Workers - (Program Income - 2016)	17.278	IL Dept. of Commerce and Economic Opportunity	n/a	95	-
WIOA Dislocated Workers - (Trade Case Management) - 2016	17.278	IL Dept. of Commerce and Economic Opportunity	16-651002	20,047	-
WIOA Dislocated Workers - 2017	17.278	IL Dept. of Commerce and Economic Opportunity	17-681002	112,610	-
WIOA Dislocated Workers - (Trade Case Management) - 2017	17.278	IL Dept. of Commerce and Economic Opportunity	17-651002	11,305	-
			17.278 - subtotal	1,068,115	-
Total WIOA Cluster				1,918,299	-
WIOA National Emergency Grants	17.277	IL Dept. of Commerce and Economic Opportunity	15-672025	233,277	-
Total U.S. Dept. of Labor				2,233,197	-
U.S. Dept. of Transportation					
Highway Planning and Construction	20.205	IL Dept. of Transportation	D-91-743-10	2,321	-
Highway Planning and Construction	20.205	IL Dept. of Transportation	P-91-144-15	2,454	-
Highway Planning and Construction	20.205	IL Dept. of Transportation	P-91-747-10	27,925	-
Highway Planning and Construction	20.205	IL Dept. of Transportation	P-91-151-15	27,306	-
Highway Planning and Construction - 2017	20.205	Chicago Metropolitan Agency for Planning	C-17-0007	34,206	-
Highway Planning and Construction - 2018	20.205	Chicago Metropolitan Agency for Planning	C-18-0007	12,870	-
Total Highway Planning and Construction Cluster			20.205 - subtotal	107,082	-

County of McHenry, Illinois
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended November 30, 2017

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Agency	Grant Number	Federal Expenditures	Sub-recipient Expenditures
U.S. Dept. of Transportation (Continued)					
National Priority Safety Programs - (STEP - 2017)	20.600	IL Dept. of Transportation	OP-17-0008	\$ 39,353	\$ -
National Priority Safety Programs - (STEP - 2018)	20.600	IL Dept. of Transportation	AP-18-0057	<u>13,042</u>	<u>-</u>
Total Highway Safety Cluster			20.600 - subtotal	<u>52,395</u>	<u>-</u>
Total U.S. Dept. of Transportation				<u>159,477</u>	<u>-</u>
U.S. Dept. of Health and Human Services					
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements - 2017	93.074	IL Dept. of Public Health	77180060E	93,098	-
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements - 2018	93.074	IL Dept. of Public Health	8087180060F	71,897	-
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements - (Cities Readiness - 2017)	93.074	IL Dept. of Public Health	77180112E	21,663	-
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements - (Cities Readiness - 2018)	93.074	IL Dept. of Public Health	87180112F	<u>3,460</u>	<u>-</u>
			93.074 - subtotal	<u>190,118</u>	<u>-</u>
Immunization Grants - (Non Cash Assistance)	93.268	IL Dept. of Public Health	n/a	243,712	-
Immunization Grants - (Vaccines for Children (AFIX) - 2016-2017)	93.268	IL Dept. of Public Health	65180014D	19,906	-
Immunization Grants - (Vaccines for Children (AFIX) - 2017-2018)	93.268	IL Dept. of Public Health	75180018E	<u>8,588</u>	<u>-</u>
			93.268 - subtotal	<u>272,206</u>	<u>-</u>

County of McHenry, Illinois
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended November 30, 2017

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Agency	Grant Number	Federal Expenditures	Sub-recipient Expenditures
U.S. Dept. of Health and Human Services (Continued)					
Drug Court Enhancement Project	93.243	Substance Abuse & Mental Health Administration	1H79T1026714-01	\$ 134,861	\$ -
Drug-Free Communities Support Program Grants	93.276	n/a	1H79SP020049-01	126,706	-
Child Support Enforcement - 2016	93.563	IL Dept. of Healthcare & Family Services	n/a	9,538	-
Child Support Enforcement - 2017	93.563	IL Dept. of Healthcare & Family Services	n/a	7,837	-
			93.563 - subtotal	17,375	-
Centers for Disease Control and Prevention-Investigations and Technical Assistance - (Breast & Cervical Cancer - 2017)	93.752	IL Dept. of Public Health	76180017E	154,540	-
Medical Assistance Program - 2016	93.778	IL Dept. of Healthcare & Family Services	n/a	205,890	-
Medical Assistance Program - 2017	93.778	IL Dept. of Healthcare & Family Services	n/a	217,520	-
Total Medicaid Cluster			93.778 - subtotal	423,410	-
Centers for Disease Control and Prevention-Investigations and Technical Assistance - (Breast & Cervical Cancer - 2018)	93.898	IL Dept. of Public Health	86180016F	105,421	-
Total U.S. Dept. of Health and Human Services				1,424,637	-
Dept. of Homeland Security					
Hazard Mitigation - 2016	97.039	IL Emergency Management Agency	PDM14MCHEN	2,476	-
Emergency Management Performance Grants - 2015	97.042	IL Emergency Management Agency	615EMAMCHE2	39,824	-
Emergency Management Performance Grants - 2016	97.042	IL Emergency Management Agency	716EMAMCHEN	75,178	-
Emergency Management Performance Grants - 2017	97.042	IL Emergency Management Agency	816EMAMCHE2	17,905	-
			97.042 - Subtotal	132,907	-
Total Dept. of Homeland Security				135,383	-
Total Expenditures of Federal Awards				\$ 8,096,528	\$ 1,624,217

COUNTY OF MCHENRY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2017

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “schedule”) includes the federal award activity of the County of McHenry under programs of the federal government for the year ended November 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the County of McHenry it is not intended to and does not present the financial position, changes in net position or cash flows of the County of McHenry.

The County of McHenry is the primary government according to GASB criteria, while the Public Building Commission is a blended component unit, and the Conservation District is a discretely presented component unit.

The Public Building Commission and the Conservation District were not required to have an audit in accordance with the Uniform Guidance.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual or modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The underlying 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.

NOTE 3 – NONCASH PAYMENTS

The County 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, 2017 was \$272,981. Of this amount, \$55,416 remained unused, and was included as inventory at November 30, 2017.

The County receives noncash 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, 2017 were \$1,387,548.

COUNTY OF MCHENRY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2017

NOTE 4 – INSURANCE AND LOANS OR LOAN GUARANTEES

During the year ended November 30, 2017, McHenry County received no insurance loans, loans, or loan guarantees for the purpose of administering federal programs.

NOTE 5 – INDIRECT COST RATE

The County of McHenry has not elected to use the 10% de minimis indirect cost rate.

COUNTY OF MCHENRY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended November 30, 2017

SECTION I – SUMMARY OF AUDITORS’ RESULTS

FINANCIAL STATEMENTS

Type of report the auditor issued on whether the financial statements were prepared in accordance with GAAP: ***Unmodified***

Internal control over financial reporting:

- > Material weakness(es) identified? X yes no
- > Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

FEDERAL AWARDS

Internal control over major programs:

- > Material weakness(es) identified? yes X no
- > Significant deficiency(ies) identified? X yes none reported

Type of auditor’s report issued on compliance for major programs: ***Unmodified***

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) of the Uniform Guidance? X yes no

Auditee qualified as low-risk auditee? X yes no

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.239	Home Investment Partnership Program

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

COUNTY OF MCHENRY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

FINDING 2017-001: INTERNAL CONTROL OVER FINANCIAL REPORTING

Material Journal Entries and Preparation of Financial Statements

Criteria: According to Statement on Auditing Standards (SAS) AU-C Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, sufficient internal controls should be in place that provide for the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles.

Condition: Our evaluation of the county's internal controls over financial reporting has identified control deficiencies that are considered material weaknesses surrounding the preparation of financial statements and footnotes, adjusting journal entries identified by the auditors, an independent review of financial reports and county-posted adjusting entries.

Cause: Due to staff turnover, retirements, and other financial priorities, the county did not have the resources required to identify and correct all misstatements and prepare a complete set of financial statements.

Effect: The auditors prepared a portion of the financial statements which presents risks over financial reporting that errors may occur and not be detected.

Recommendation: We recommend that the county implement additional procedures, internal controls, and obtain the resources necessary to prepare a complete set of financial statements without material changes.

Management's Response: Significant staff resources were allocated to implement the countywide new financial system, Microsoft Dynamics 365 (D365). After some consideration, it was decided that the financial system would be implemented with no new head count. The D365 system is expected to go-live for accounting and financial reporting December 1, 2018. As a prerequisite to implementation, the Auditor's Office was charged with testing, installation, and county wide training of a paperless invoice approval process.

During these commitments, two members of the implementation core team the County Auditor and Purchasing Director retired unexpectedly. In addition, the Internal Auditor position resigned. These positions were vacant for more than 90 days. With the eventual appointment of the County Auditor, the County Board concurrently made the decision to reassign the accounting/financial reporting responsibilities to the Associate County Administrator – Finance. This change in duties was made effective June 11, 2018. These circumstances led management to have Baker Tilly assist in preparing a portion of the financial statements, so remaining staff resources could be allocated to these high priority projects. The Auditor's Office staff did a notable job of completing the year-end accounting and financial reporting duties within the time constraints allowed while working on the implementation of the new financial system and paperless bill approval process all with a reduction in staff levels.

COUNTY OF MCHENRY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (cont.)

FINDING 2017-001: INTERNAL CONTROL OVER FINANCIAL REPORTING (cont.)

Material Journal Entries and Preparation of Financial Statements (cont.)

Management's Response (cont.): With the move of the financial reporting to County Administration there will be additional staff utilized to reconcile, review, and prepare the needed information on a routine basis as required for the audit. The Financial Team of the County is committed to ensuring all future audits have no findings, although fiscal year 2018 is still a transition year for the Finance team. During the fall of 2018, the Auditor's Office will be assisting County Administration by reviewing and updating the financial reporting internal controls. Workflow reviews of material journal entries and added internal controls are planned to be built-in to D365 to ensure accuracy of financial reporting. The Auditor's Office will provide assistance in training the Finance department and in the design of the financial reporting configuration in the new system to ensure continued success.

FINDING 2017-002: Internal Control Environment

Investments

Criteria: According to Statement on Auditing Standards (SAS) AU-C Section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, sufficient internal accounting controls should be in place that mitigate the risk of material misstatement in the financial records.

Condition: The county invests in mortgaged-backed securities and municipal bonds. Investing in these types of instruments requires modification to the methodology used to account for their value when compared to depository accounts.

Amounts reported for these investments were materially different when compared to amounts being reported by the broker.

Cause: The investment accounts are not being adjusted to fair value as required by the accounting standards.

Effect: Material adjustments were prepared during the course of the audit.

Recommendation: We recommend the investment accounts be adjusted to their fair value as reported by the county's broker and be maintained and accounted for separate from the county's cash depository accounts.

We also recommend the county familiarize itself with the associated risks for each type of investment held and consider reporting the performance of the investment portfolio to either an existing committee or a similar oversight body.

COUNTY OF MCHENRY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS (cont.)

FINDING 2017-002: Internal Control Environment (cont.)

Investments (cont.)

Management's Response: The Treasurer's Office recently purchased Sympro, an investment software that accounts for the many different investments an organization may hold. The system reports par/face values, book value, and the fair market value of each investment on a monthly basis. The Sympro system is in place and operating well overall. As part of the implementation of Dynamics 365 there will be an interface created that will allow for the updating of the fair market value each month to the general ledger. The investments will be delineated by investment type (Federally backed, State backed, etc.) and will contain summary data about each investment. The County will be able to separate out the investments so as not to account for them in the cash depository accounts. The Associate County Administrator – Finance will work with the Treasurer to establish a monthly report to the Finance and Audit Committee to ensure the investment objectives are being met, along with researching the reporting requirements to verify that the investments held in the County's portfolio are being reported as required for fiscal year 2018.

COUNTY OF MCHENRY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2017

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FINDING 2017-003

PROGRAM CFDA NUMBER: 14.218 Community Development Block Grants,
FEDERAL AWARD IDENTIFICATION NUMBER: B-16-UC-17-0007, B-17-UC-17-0007
FEDERAL GRANTOR: U.S. Department of Housing and Urban Development

PROGRAM CFDA NUMBER: 14.239 Housing Investment Partnership Program,
FEDERAL AWARD IDENTIFICATION NUMBER: M-13-UC-17-0219, M-14-UC-17-0219,
M-15-UC-17-0219, M-16-UC-17-0219, M-17-UC-17-0219
FEDERAL GRANTOR: U.S. Department of Housing and Urban Development

Criteria: 2 CFR 200.331 Requirements For Pass-Through Entities requires that every subaward contract is clearly identified to the subrecipient as a subaward and includes the appropriate information at the time of the subaward and if any of these data elements change, the changes need to be included in a subsequent subaward modification. The required information to be included in a subaward contract are: Federal Award Identification, subrecipient name, subrecipient's DUNS number, Federal Award Identification Number, federal award date, subaward period of performance, amount of federal funds obligated, total amount of federal award, federal award project description, name of federal awarding agency, CFDA number and name, identify whether project is R&D, and indirect cost rate for federal award.

Condition/Context: During testing of subrecipient monitoring it was noted that the three subrecipient contracts tested were missing the following required disclosures:

- > Subrecipient's DUNS number
- > Federal Award Identification Number
- > Federal award date
- > CFDA number and name

The sample was not a statistical sample.

Cause: The County was unaware of contract requirements.

Effect: Subrecipients may not have adequate information to determine which HUD and/or Federal regulations need to be followed as part of the housing project construction process.

Questioned Costs: None noted.

Recommendation: The County should review Uniform Guidance requirements and update subsequent contracts.

Management's Response: The Community Development Division will review the Uniform Guidance requirements annually. Also, the Division will include the information required by 2 CFR 200.331 in all future subrecipient agreements.

COUNTY OF MCHENRY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2017

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS (CONT.)

FINDING 2017-004

PROGRAM CFDA NUMBER: 14.218 Community Development Block Grants
FEDERAL AWARD IDENTIFICATION NUMBER: B-16-UC-17-0007, B-17-UC-17-0007
FEDERAL GRANTOR: U.S. Department of Housing and Urban Development

Criteria: 2 CFR 200.303 Internal Controls requires that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. To minimize the risk of errors, internal controls should be in place for all program compliance requirements, including appropriate review and approval of reports. HUD requires the County to submit certain financial and performance reports according to program guidelines. This includes the C04PR26 CDBG Financial Summary report and HUD 60002 Section 3 Summary report. Information included in these reports should be based on reliable financial data or other information.

Condition/Context: During testing of the reports submitted we noted the following:

- > The PR03 and PR26 CDBG Financial Summary and HUD 60002 Section 3 Summary reports were not reviewed and approved by someone other than the preparer prior to submission.
- > Unexpended prior year funds reported in the CDBG Financial Summary report were not supported by the County's financial information.

The sample was not a statistical sample.

Cause: The County currently does not have proper internal controls related to the review of reports for compliance matters or before being submitted to the federal agency.

Effect: Lack of effective controls in the review function could result in reports being submitted with errors.

Questioned Costs: None noted.

Recommendation: The County should review its internal control procedures to consider adding a review and approval function for compliance matters as well as before reports are submitted to the federal agency.

Management's Response: The Community Development Administrator will perform a documented review of the required grant reports that are prepared by staff prior to submission. Additionally, all grant reports will be compared to the County's financial information prior to submission to ensure no discrepancies.