

McHenry County Government Center  
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May 16, 2019

**ADDENDUM #2**  
**RFP #19-05 Outside Auditing Services**  
**Due May 23, 2019 by 2:00PM (CST)**

**Additions & Clarifications to RFP**

- Clarification #1:** The Accounting/Auditing/Reporting functions for the County relocated to Administration/Finance in June, 2018. Therefore, we cannot be specific to all questions due to the temporary learning curve. During 2018, the County also implemented a new ERP financial system (Microsoft Dynamics 365).
- Clarification #2:** The 2018 audit is in process at this time.
- Clarification #3:** Prior CAFR's are available on the County's website.
- Question #1:** Why is the County requesting RFPs this year?  
Response: Due to the County Board direction for practice & principle.
- Question #2:** Is your current provider allowed to submit a proposal?  
Response: Yes
- Question #3:** Are there any service issues with the current provider?  
Response: No
- Question #4:** Was there a management letter issued in 2017/2018? If so, can the County provide a copy?  
Response: Yes in 2017; attached. Refer to clarification #2 for 2018.
- Question #5:** How many and what types of audit entries were made in FY2017/2018? Is this typical?  
Response: Less than 10 in 2017. Refer to clarification #2 for 2018. Typically, there are fewer.
- Question #6:** When will the final adjusted trial balances and the draft of the CAFR be provided to the auditor for review each year?  
Response: By the end of March
- Question #7:** What is the typical prelim and fieldwork duration? How many auditors are normally in the field?  
Response: Three (3) days each. Three (3) to Six (6) auditors in the field.
- Question #8:** When will the Schedule of Expenditures of Federal Awards be ready for the auditors?  
Response: Beginning of May
- Question #9:** What assistance does the County expect they will need from the auditors for implementation of new GASB standards?  
Response: From general direction to automated, formatted templates.
- Question #10:** Are all programs – i.e. payroll processing, fixed asset management programs, etc. – integrated with the general ledger?  
Response: Yes

**Question #11: What system does the County use to track fixed assets?**

Response: Microsoft D365 under new review

**Question #12: Does the County anticipate having any new bond issues for 2019?**

Response: No

**Question #13: Who provides the actuarial services for the Pension/OPEB plans?**

Response: Pension provided by IMRF. OPEB provided by Segal.

**Question #14: Were there any additional billings by the predecessor audit firm for services beyond the scope of the audit?**

Response: Typically no

**Question #15: Does the County maintain documentation of its processes and controls over significant transaction cycles such as payroll, cash disbursements, billings, etc.?**

Response: Yes

**Question #16: Are all County funds and transactions, including agency funds, maintained on the County's general ledger? Please describe any that are not.**

Response: No. Decentralized bank accounts (County Clerk redemption, Regional Office of Education State funds, Sheriff's narcotics forfeitures, etc.)

**Question #17: When was the complete draft of the CAFR (including MD&A, transmittal letter and statistical section) provided to the auditor for the FY2018 audit? What was the level of auditor edits to this draft (minor format changes, a few number / disclosure changes, or numerous number and / or disclosure changes)?**

Response: FY2018 audit in process.

**Question #18: What third party service providers does the County use (insurance claims, etc.)?**

Response: IPBC, ADP, FMLA, York

**Question #19: What is the status of the County's 2018 comprehensive annual financial report and related reports/documents?**

Response: In process

**Question #20: Did you encounter any challenges with your fiscal year 2018 audit? If so, please describe.**

Response: This is the first year required to report GASB 75.

**Question #21: Why is the County issuing an RFP?**

Response: Refer to Response #1

**Question #22: Is the prior auditor bidding on the engagement or is rotation mandatory?**

Response: This RFP is public and open to all firms. There is no mandatory rotation.

**Question #23: How long have you been working with your current auditors?**

Response: Fifteen (15) years. However, during that time, two (2) separate firms were consolidated.

**Question #24: Are there any major changes in the County's operations or organization since your 2017 financial statements which could have an impact on the 2019 or subsequent audits, such as a change in reporting entity or a change in services or outsourcing services?**

Response: Refer to Clarification #1. The County anticipates no impact to 2019 audit & beyond.

**Question #25: Are there any new funds in Fiscal 2019; any funds eliminated?**

Response: One (1) new fund; none eliminated

**ALL OTHER TERMS AND CONDITIONS OF THE RFP REMAIN THE SAME**

- Question #26: How many audit adjustments were proposed by the auditors and made during the Fiscal 2018 audit? Are there certain adjustments or analysis that the auditor is required to perform? Is it possible to receive a copy of last years' audit journal entries?**  
 Response: 2018 audit in process. Typically none or only as needed. A copy of 2017 journal entries will be provided to the awarded firm.
- Question #27: How is the County capturing the conversion entries between the fund financial statements and the government-wide financial statements?**  
 Response: Via MS Excel workbooks
- Question #28: Will trial balances be fully adjusted with all accruals made, partially adjusted (please specify which types of adjustments will be made) or unadjusted? When are the trial balances ready for audit?**  
 Response: Fully adjusted. Trial balances ready 60-90 days after the year-end close (end of Jan-Feb)
- Question #29: Are all funds reported on in the CAFR maintained by the County in its accounting software? Does the fund structure in the accounting software mirror the CAFR?**  
 Response: Yes; Yes
- Question #30: How many copies of the following reports should be provided:**  
 a) Management letter  
 b) Circuit Clerk reports  
 c) Single Audit report
- Response: Thirty (30) for each
- Question #31: What internal control documentation is in place for capital assets, payroll, payables, general ledger and other significant transaction cycles?**  
 Response: Policy and workbooks
- Question #32: Have there been any internal control deficiencies identified relating to the systems?**  
 Response: No
- Question #33: Does the County prepare the Schedule of Expenditures of Federal Awards?**  
 Response: Yes
- Question #34: Can Single Audit testing be performed before or shortly after year end?**  
 Response: Yes
- Question #35: Is the level of federal grant funding for fiscal year 2019 expected to be similar to prior years?**  
 Response: Yes
- Question #36: Are there any decentralized cash receipts? If yes, please describe the locations and the types of collections occurring at the locations.**  
 Response: Yes; Refer to Response #16.
- Question #37: Is the purchasing process centralized?**  
 Response: Yes
- Question #38: Is grant documentation centralized in the Administration Department?**  
 Response: Yes
- Question #39: Capital Assets - how is the detail maintained including the recording of depreciation?**  
 Response: By the financial system

**ALL OTHER TERMS AND CONDITIONS OF THE RFP REMAIN THE SAME**

**Question #40: What debt issuances are anticipated during the period covered by the County's RFP?**

Response: Not available

**Question #41: Who performs the actuarial valuations for the OPEB plan?**

Response: Refer to Response #13

**Question #42: Have there been any accounting disagreements or fee disputes with the current auditor?**

Response: No

**Question #43: Do the prior auditors maintain any data for the County (e.g., capital asset lists, depreciation schedules)? If yes, do you anticipate having difficulty in the successor auditor accessing the prior auditor workpapers?**

Response: No

**Question #44: What was the fee for the prior audit (fiscal year ended November 30, 2018)? Is this for the same services requested in the RFP?**

Response: \$145,000.00. Yes

**Question #45: Were there any additional billings by the predecessor audit firm for services beyond the scope of the audit?**

Response: No

**Question #46: What are the County's office hours available for fieldwork for the auditors?**

Response: 8:00am-5:00pm (CST)

**Question #47: Is there anything you wished you received (tangible or intangible) through the audit process that you are not getting right now?**

Response: No

**Question #48: Are cash and investments reconciled to the balances by the treasurer to the general ledger maintained by the County Auditor?**

Response: Yes, the treasurer reconciles, but the general ledger is maintained by Administration/Finance

**Question #49: Is the software in use by the Circuit Clerk, Nursing Home, Health Department, Mental Health Board or other departments different than the software used for the general ledger?**

Response: Circuit Clerk; yes. Nursing Home; yes. Health Department; no. Mental Health Board; no.

**Question #50: Does the County or the independent auditor prepare the state comptroller's report?**

Response: County

**Question #51: Are there any funds not reported on the County's general ledger?**

Response: No

**Question #52: Are there any changes the County plans to make in the 2019 CAFR presentation?**

Response: No

**Question #53: When are the audited financial statements for the McHenry County Public Building Commission (PBC) available? Who performs the audit of the PBC? Is the audit performed in accordance with GAGAS or only GAAS?**

Response: The McHenry County PBC has their own independent audit, outside the scope of this solicitation.

**Question #54: Do the component units participate in IMRF and OPEB through the County? If yes, will the County allocate portions of the net pension liability and total OPEB liability to the component units? Will the County auditor be required to perform additional procedures over the allocation to satisfy the auditors of the component units?**

**ALL OTHER TERMS AND CONDITIONS OF THE RFP REMAIN THE SAME**

Response: No; No

**Question #55: What is the status of the material weaknesses, deficiencies and findings included in the 2017 “Communication to those Charged with Governance and Management” and “Report on Federal Awards”?**

Response: Refer to attachment

**Question #56: There are certain components of the County’s request for proposal that would impair our independence in accordance with the AICPA Code of Professional Conduct – does the County desire that these items be listed as exceptions in our proposal?**

Response: Yes

To the Members of the Board and Management  
of the County of McHenry, Illinois

In planning and performing our audit of the financial statements of the County of McHenry as of and for the year ended November 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing 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 its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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. We consider the following deficiencies in the county's internal control to be material weaknesses.

- > Internal Control Over Financial Reporting
- > Investments

The County of McHenry's written response to the material weaknesses identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the management, the County Board, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

*Baker Tilly Virchow Krause, LLP*

Chicago, Illinois  
July 24, 2018

Auditing standards require that we perform procedures to obtain an understanding of your government and its internal control environment as part of the annual audit. This includes an analysis of significant transaction cycles and an analysis of the county's year-end financial reporting process and preparation of your financial statements.

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## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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Properly designed systems of internal control provide your organization with the ability to process and record monthly and year-end transactions and annual financial reports.

Our audit included a review and evaluation of the county's internal controls relating to financial reporting. Common attributes of a properly designed system of internal control for financial reporting are as follows:

- > There is adequate staffing to prepare financial reports throughout the year and at year-end.
- > Material misstatements are identified and corrected during the normal course of duties.
- > Complete and accurate financial statements including footnotes are prepared.
- > Financial reports are reviewed for completeness and accuracy.

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.

Management has not prepared a complete set of financial statements that are in conformity with generally accepted accounting principles and relied upon the auditors to prepare some sections. In addition, material misstatements in the general ledger were identified during the financial audit, adjusting entries posted by the county were not independently reviewed, and the county was generally not prepared for the audit at a level that would prevent material misstatements.

### ***Management's Response (11/30/2017)***

#### ***Associate County Administrator – Finance and County Auditor Management 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.

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## INTERNAL CONTROL OVER FINANCIAL REPORTING (cont.)

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### *Management's Response (11/30/2017) (cont.)*

#### *Associate County Administrator – Finance and County Auditor Management 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.

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## INVESTMENTS

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During fiscal 2016, the county began investing in mortgaged-backed securities and municipal bonds. The amount invested at year-end was approximately \$14.4 million. Historically, the county held all of its available funds in depository accounts such as checking, saving, and certificates of deposits, with the exception of a comparatively small amount invested with Illinois Funds. The transition to investing in these types of instruments requires modification to the methodology used to account for their value. Some of the items to consider include:

- > We recommend the investment accounts be adjusted to the market value as reported by the county's broker(s). As changes to the investment values are experienced through realized and unrealized gains/losses, investment income/losses, sales and purchases, or any other transactions affecting their value, entries should be made to the investment asset account and an offsetting entry to an investment income account.
- > The activity should be maintained and accounted for separate from the county's cash depository accounts so as to avoid confusion.
- > The county should familiarize itself with the associated risks for each type of investment held. The accounting standard that governs investments is Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures.
- > The county should understand the additional financial reporting requirements for each type of investment it holds at year-end.
- > The county should consider reporting the performance of the investment portfolio to either an existing committee or a similar oversight body. This would allow the county to make sure its investment objectives were being met. It would also provide additional controls over the review of investment decisions and results.

We are available to assist with questions as you consider these and other changes to the county's current procedures.

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**INVESTMENTS (cont.)**

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**Status (11/30/2017)**

During fiscal 2017, the county increased its investment portfolio being held in both the General Fund and the Valley Hi Enterprise fund. While the county has begun to use separate investment accounts in these two funds, the amounts being reported were materially different when compared to amounts being reported by the broker. Since we first reported these recommendations to you last year, the investment accounts were still not being adjusted to market value as required by the accounting standards. This resulted in material adjustments during the course of the audit. We continue to recommend all of the items noted above to accurately account for and report these investments.

***Management's Response (11/30/2017)****County Treasurer and Associate County Administrator – Finance Management 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 overall well. 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.