

COUNTY OF MCHENRY, ILLINOIS

REPORT ON FEDERAL AWARDS

For the Year Ended November 30, 2018

COUNTY OF MCHENRY

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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, 2018, 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 September 24, 2019. 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.

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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 to be material weaknesses.

Internal Control Over Financial Reporting (cont.)

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2018-003 to be a significant deficiency.

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
September 24, 2019

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, 2018. 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, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2018-004. Our opinion on each major federal program is not modified with respect to this matter.

County of McHenry's Response to Finding

The County of McHenry's response to the noncompliance 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.

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 identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-004, that we consider to be a material weakness.

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, 2018, 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 September 24, 2019, 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
September 24, 2019

COUNTY OF MCHENRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended November 30, 2018

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Agency	Grant Number	Federal Expenditures	Sub-recipient Expenditures
U.S. Department of Agriculture					
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC - 2018)	10.557	IL Dept. of Human Services	FCSVQ01062	\$ 384,239	\$ -
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC - 2019)	10.557	IL Dept. of Human Services	FCSWQ01062	267,049	-
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Breastfeeding Peer Counseling - 2018)	10.557	IL Dept. of Human Services	FCSVQ01156	18,133	-
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC Breastfeeding Peer Counseling - 2019)	10.557	IL Dept. of Human Services	FCSWQ01156	10,741	-
Special Supplemental Nutrition Program for Women, Infants, and Children (Noncash Food Instruments - 2018)	10.557	IL Dept. of Human Services	n/a	767,549	-
Special Supplemental Nutrition Program for Women, Infants, and Children (Noncash Food Instruments - 2019)	10.557	IL Dept. of Human Services	n/a	421,271	-
Subtotal				<u>1,868,982</u>	<u>-</u>
WIC Farmers' Market Nutrition Program - 2019	10.572	IL Dept. of Human Services	FCSWQ01244	988	-
Total U.S. Department of Agriculture				<u>1,869,970</u>	<u>-</u>
U.S. Department of Housing and Urban Development					
CDBG - Entitlement Grants Cluster					
Community Development Block Grant (CDBG) - 2015	14.218	n/a	B-15-UC-17-0007	1	1
Community Development Block Grant (CDBG) - 2016	14.218	n/a	B-16-UC-17-0007	264,138	264,138
Community Development Block Grant (CDBG) - 2017	14.218	n/a	B-17-UC-17-0007	451,401	423,852
Community Development Block Grant (CDBG) - 2018	14.218	n/a	B-18-UC-17-0007	311,146	167,818
Community Development Block Grant (CDBG) - Program Income	14.218	n/a	n/a	3,210	2,568
Community Development Block Grant (NSP)	14.218	n/a	B-08-UN-17-0005	4,014	4,014
Total CDBG - Entitlement Grants Cluster				<u>1,033,910</u>	<u>862,391</u>

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MCHENRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended November 30, 2018

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Agency	Grant Number	Federal Expenditures	Sub-recipient Expenditures
U.S. Department of Housing and Urban Development (cont.)					
Housing Investment Partnership Program (HOME) - 2014	14.239	n/a	M-14-UC-17-0219	\$ 2,618	\$ -
Housing Investment Partnership Program (HOME) - 2015	14.239	n/a	M-15-UC-17-0219	6,808	-
Housing Investment Partnership Program (HOME) - 2016	14.239	n/a	M-16-UC-17-0219	977	-
Housing Investment Partnership Program (HOME) - 2017	14.239	n/a	M-17-UC-17-0219	262,347	240,408
Housing Investment Partnership Program (HOME) - 2018	14.239	n/a	M-18-UC-17-0219	7,088	-
Subtotal				<u>279,838</u>	<u>240,408</u>
Continuum of Care Program - 2016	14.267	n/a	IL0644L5T001600	15,121	-
Continuum of Care Program - 2017	14.267	n/a	IL0644L5T001600	13,006	-
Continuum of Care Program - 2015 Homeless Management Information System	14.267	n/a	IL0610L5T001500	487	-
Continuum of Care Program - 2016 Homeless Management Information System	14.267	n/a	IL0610L5T001601	34,035	-
Continuum of Care Program - 2017 Homeless Management Information System	14.267	n/a	IL1578L5T001700	1,233	-
Subtotal				<u>63,882</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development				<u>1,377,630</u>	<u>1,102,799</u>
U.S. Department of Justice					
State Criminal Alien Assistance Program (SCAAP) - 2016	16.606	n/a	n/a	23,000	-
Edward Byrne Memorial Justice Assistance Grant Program - 2017	16.738	IL Criminal Justice Information Authority	414024	98,417	-
Total U.S. Department of Justice				<u>121,417</u>	<u>-</u>
U.S. Department of Labor					
Trade Adjustment Assistance - 2017	17.245	IL Dept. of Commerce and Economic Opportunity	16-661002	53,402	-
Trade Adjustment Assistance - 2018	17.245	IL Dept. of Commerce and Economic Opportunity	17-661002	3,853	-
Subtotal				<u>57,255</u>	<u>-</u>

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MCHENRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended November 30, 2018

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Agency	Grant Number	Federal Expenditures	Sub-recipient Expenditures
U.S. Department of Labor (cont.)					
WIOA Cluster					
WIOA Adult Program - 2016	17.258	IL Dept. of Commerce and Economic Opportunity	16-681002	\$ 23,836	\$ -
WIOA Adult Program - 2017	17.258	IL Dept. of Commerce and Economic Opportunity	17-681002	336,222	-
WIOA Adult Program - 2018	17.258	IL Dept. of Commerce and Economic Opportunity	18-681002	95,204	-
WIOA Adult Program - (Incentive Funds)	17.258	IL Dept. of Commerce and Economic Opportunity	15-632002	8,994	-
WIOA Adult Program - (Program Income - 2017)	17.258	IL Dept. of Commerce and Economic Opportunity	n/a	76	-
Subtotal				<u>464,332</u>	<u>-</u>
WIOA Youth Activities - 2017	17.259	IL Dept. of Commerce and Economic Opportunity	17-681002	488,115	-
WIOA Youth Activities - 2018	17.259	IL Dept. of Commerce and Economic Opportunity	18-681002	89,669	-
WIOA Youth Activities - (Program Income - 2017)	17.259	IL Dept. of Commerce and Economic Opportunity	n/a	135	-
Subtotal				<u>577,919</u>	<u>-</u>
WIOA Dislocated Workers - 2016	17.278	IL Dept. of Commerce and Economic Opportunity	16-681002	42,695	-
WIOA Dislocated Workers - 2017	17.278	IL Dept. of Commerce and Economic Opportunity	17-681002	645,740	-
WIOA Dislocated Workers - 2018	17.278	IL Dept. of Commerce and Economic Opportunity	18-681002	96,639	-
WIOA Dislocated Workers - (Trade Case Management) - 2017	17.278	IL Dept. of Commerce and Economic Opportunity	17-651002	87,064	-
WIOA Dislocated Workers - (Program Income - 2017)	17.278	IL Dept. of Commerce and Economic Opportunity	n/a	196	-
Subtotal				<u>872,334</u>	<u>-</u>
Total WIOA Cluster				<u>1,914,585</u>	<u>-</u>
Total U.S. Department of Labor				<u>1,971,840</u>	<u>-</u>
U.S. Department of Transportation					
Highway Planning and Construction Cluster					
Highway Planning and Construction - 2018	20.205	Chicago Metropolitan Agency for Planning	C-18-0007	49,059	-
Highway Planning and Construction - 2019	20.205	Chicago Metropolitan Agency for Planning	C-19-0007	29,675	-
Total Highway Planning and Construction Cluster				<u>78,734</u>	<u>-</u>

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MCHENRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended November 30, 2018

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Agency	Grant Number	Federal Expenditures	Sub-recipient Expenditures
U.S. Department of Transportation (cont.)					
Highway Safety Cluster					
National Priority Safety Programs - (STEP - 2018)	20.600	IL Dept. of Transportation	AP-18-0057	\$ 34,366	\$ -
National Priority Safety Programs - (STEP - 2019)	20.600	IL Dept. of Transportation	OP-19-0047	8,337	-
Total Highway Safety Cluster				<u>42,703</u>	<u>-</u>
Transit Services Programs Cluster					
Enhanced Mobility for Seniors and Individuals with Disabilities	20.513	Regional Transportation Authority	S5310-2017-05	678,881	-
Total Transit Services Programs Cluster				<u>678,881</u>	<u>-</u>
Total U.S. Department of Transportation				<u>800,318</u>	<u>-</u>
U.S. Department of Health and Human Services					
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements - 2018					
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements - 2018	93.074	IL Dept. of Public Health	8087180060F	93,797	-
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements - 2019					
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements - (Cities Readiness - 2018)	93.074	IL Dept. of Public Health	97180060G	60,210	-
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements - (Cities Readiness - 2018)	93.074	IL Dept. of Public Health	87180112F	19,368	-
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements - (Cities Readiness - 2019)					
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements - (Cities Readiness - 2019)	93.074	IL Dept. of Public Health	97580017G	13,993	-
Subtotal				<u>187,368</u>	<u>-</u>
Immunization Grants - (Non Cash Assistance)					
Immunization Grants - (Non Cash Assistance)	93.268	IL Dept. of Public Health	n/a	278,154	-
Immunization Grants - (Vaccines for Children (AFIX) - 2017-2018)					
Immunization Grants - (Vaccines for Children (AFIX) - 2017-2018)	93.268	IL Dept. of Public Health	85180018F	20,515	-
Immunization Grants - (Vaccines for Children (AFIX) - 2018-2019)					
Immunization Grants - (Vaccines for Children (AFIX) - 2018-2019)	93.268	IL Dept. of Public Health	n/a	13,480	-
Subtotal				<u>312,149</u>	<u>-</u>

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MCHENRY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended November 30, 2018

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor Agency	Grant Number	Federal Expenditures	Sub-recipient Expenditures
U.S. Department of Health and Human Services (cont.)					
Drug Court Enhancement Project	93.243	Substance Abuse & Mental Health Administration	1H79T1026714-01	\$ 255,477	\$ -
Drug-Free Communities Support Program Grants	93.276	n/a	1H79SP020049-01	115,227	-
Child Support Enforcement - 2018	93.563	IL Dept of Healthcare & Family Services	n/a	6,708	-
FCM High Risk Infant - 2019	93.667	IL Dept. of Human Services	FCSXU05027	31,790	-
Centers for Disease Control and Prevention-Investigations					
Technical Assistance - (Breast & Cervical Cancer - 2018)	93.898	IL Dept. of Public Health	86180016F	227,786	-
Technical Assistance - (Breast & Cervical Cancer - 2019)	93.898	IL Dept. of Public Health	96180016G	54,708	-
Subtotal				<u>282,494</u>	<u>-</u>
Medicaid Cluster					
Medical Assistance Program - 2018	93.778	IL Dept of Healthcare & Family Services	n/a	163,711	-
Total Medicaid Cluster				<u>163,711</u>	<u>-</u>
Total U.S. Department of Health and Human Services					
				<u>1,354,924</u>	<u>-</u>
U.S. Department of Homeland Security					
Emergency Management Performance Grants - 2018	97.042	IL Emergency Management Agency	918EMAMCHEN	76,668	-
Total U.S. Department of Homeland Security					
				<u>76,668</u>	<u>-</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u>\$ 7,572,767</u>	<u>\$ 1,102,799</u>

See accompanying notes to schedule of expenditures of federal awards.

COUNTY OF MCHENRY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2018

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, 2018. 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, 2018 was \$267,956. Of this amount, \$45,218 remained unused, and was included as inventory at November 30, 2018.

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, 2018 were \$1,188,820.

COUNTY OF MCHENRY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended November 30, 2018

NOTE 4 – INSURANCE AND LOANS OR LOAN GUARANTEES

During the year ended November 30, 2018, 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, 2018

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? X yes none reported

Noncompliance material to financial statements noted? yes X no

FEDERAL AWARDS

Internal control over major programs:

- > Material weakness(es) identified? X yes no
- > Significant deficiency(ies) identified? yes X 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? yes X no

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
17.258, 17.259, 17.278	WIOA Cluster

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, 2018

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

FINDING 2018-001: INTERNAL CONTROL OVER FINANCIAL REPORTING

Repeat of Finding 2017-001

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, adjusting journal entries posted by the county were not independently reviewed, and a general lack of preparation for the audit. In addition, the single audit reporting package was not submitted to the Federal Audit Clearinghouse on time to ensure *Uniform Guidance* deadlines were met.

Cause: The county reassigned all of the accounting and financial reporting responsibilities during the last year. In addition, the department with these newly reassigned responsibilities experienced key staff turnover, at the same time that they were implementing the new countywide financial system. 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 and proposed material adjusting journal entries.

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. We also recommend that the *Uniform Guidance* deadlines be adhered to.

Management's Response: Under review pending hire of new Finance Director. Possible remedies under consideration include improving internal control procedures to make sure that there is a review of all journals entries and financial statements by someone other than the preparer, development of a financial statement development calendar with the auditors with specific assignment of development responsibilities, filling staff vacancies, and setting a deadline for all adjusting journal entries in order to make sure that all financial statements are prepared on a timely and accurate basis. Target implementation: FY 2019 CAFR

COUNTY OF MCHENRY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2018

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

FINDING 2018-002: Investments

Repeat of Finding 2017-002

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 adjustment to fair value for reporting in accordance with generally accepted accounting standards.

Amounts initially reported by management for these investments were materially different compared to fair value amounts reported by the broker, resulting in the identification of material adjusting journal entries by the auditors.

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 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.

Management's Response: Under review pending hire of new Finance Director. Most likely remedy is to develop a procedure to regularly adjust investment accounts to fair value. Finance is working with the Treasurer's Office on this to receive and understand the reports to implement the adjustments. Staff will consider and recommend strategies for oversight. Target implementation: FY 2019 CAFR

COUNTY OF MCHENRY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2018

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

FINDING 2018-003: Internal Control Environment

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 exist to prevent, or detect and correct, misstatements on a timely basis.

Condition: Certain controls are not currently in place related to significant transaction cycles surrounding controls as noted below.

CONTROLS OVER MONTHLY AND YEAR-END ACCOUNTING

1. Trial balances or interim financial statements are not produced and reviewed by a responsible party as well as adjusting financial amounts throughout the year.
2. Adjusting journal entries are not independently reviewed and documented as being approved according to the County policy.

RETAINAGES PAYABLE

1. A separate control is not in place to identify retainages that exist on contractual payments of the County.

CONTROLS OVER PAYROLL

1. The checking account used for payroll is being reconciled regularly but there was no evidence to document that this monthly reconciliation is being independently reviewed.

Cause: The county reassigned all of the accounting and financial reporting responsibilities during the last year. In addition, the department with these newly reassigned responsibilities experienced key staff turnover at the same that they were implementing the new countywide financial system.

Effect: There is a risk that erroneous or unauthorized transactions or misstatements could occur without the knowledge of management or the governing body if sufficient internal controls do not exist.

Recommendation: We recommend that the county implement additional controls to ensure county assets are adequately safeguarded and financial reporting responsibilities are achieved.

Management's Response: Under review pending hire of new Finance Director. Remedies include, independent review of trial balances and interim financial statements, independent review of adjusting journal entries, develop separate control to identify retainage payable, independent review of monthly payroll account reconciliation. Target implementation FY 2019 CAFR

COUNTY OF MCHENRY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS For the Year Ended November 30, 2018

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

FINDING 2018-004: Single Audit Report Submission

Federal Program: N/A
Federal Agency: N/A
Pass-Through Entity: N/A
CFDA Number: N/A
Federal Award Number: N/A

Criteria: According to the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200.512, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the single audit reporting package must be submitted within 30 days after receipt of the auditor's report, or 9 months after the end of the fiscal year—whichever comes first.

Condition: The County's fiscal year 2018 single audit reporting package was not submitted within nine months after the end of the audit period.

Questioned Costs: Not applicable

Cause: The County did not have appropriate internal control policies and procedures in place to ensure accounting records and financial statements were reconciled timely and the audit conducted to meet compliance requirements.

Effect: The single audit reporting package was submitted after the required reporting time period.

Recommendation: To ensure compliance with Uniform Guidance, the County should prepare accurate, complete and timely financial statements, to ensure the timely submission of the single audit reporting package.

Management's Response:

Under review pending hire of new Finance Director. Remedies potentially to include review of existing internal control policies and procedures in place to ensure that accounting records and financial statements are reconciled on a timely basis and that the audit conducted will meet compliance requirements.