

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

MINUTES OF TUESDAY, JUNE 28, 2005

Chairman Munaretto called the meeting to order at 9:32 a.m. The following Committee Members were present: Marc Munaretto, Chairman; John Hammerand; Ann Kate; Marie Chmiel; Ann Gilman; and Perry Moy. Don Brewer was absent. Also in attendance: Peter B. Austin, County Administrator; John Labaj, Deputy County Administrator; Ralph Sarbaugh, Associate County Administrator-Finance; Pam Palmer, Auditor Department Staff; Dennis Smith, Executive Director, Mental Health 708 Board; Beverly Thomas, President – Mental Health 708 Board; Rich Weinhandl, Sheriff Department; Tom Carroll, Assistant State's Attorney; Phyllis Walters, Recorder and Staff; Don Larson and Virginia Peschke, County Board Members; representatives from Virchow Krause; representatives from the Workforce Investment Board; interested public and the press.

Marc Munaretto, Chairman	
Don Brewer	Marie Chmiel
Ann Gilman	John Hammerand
Ann Kate	Perry Moy

MINUTES

Mr. Moy made a motion, seconded by Ms. Chmiel, to approve the Finance and Audit Committee June 14, 2005 minutes. Chairman Munaretto asked that the minutes reflect that the Management Services Committee did not have a Resolution to consider regarding the MCEDC efforts on a Convention and Tourism Bureau. Such a Resolution will be forthcoming at the next Finance and Audit Committee if approved by the Management Services Committee on July 12, 2005. The minutes were approved as presented with a unanimous voice vote.

PUBLIC PARTICIPATION

None

OLD BUSINESS

2004 Comprehensive Annual Financial Report & Report on Internal Control: Chairman Munaretto moved item # up on the agenda to allow the representatives from Virchow Krause to address the Committee and answer any questions regarding the Management Letter. He also thanked Mr. Rahn for his thoughtful presentations two weeks ago on operational issues and future plans. Mr. Don Rahn and Ms. Karan Afseth came forth to respond to questions from Committee members regarding the Management Letter. Ms. Chmiel asked for further elaboration on risk assessment issues and on the County's I.T. system and procedures regarding the elimination of terminated or retired employee's passwords. Mr. Rahn responded that the Committee's direction should set the tone for a "cost benefit analysis" of controls. A focus of new auditing procedures is more on the detection of fraud. The Committee should provide guidelines and procedures that focus on fraud controls and the early detection of fraud. These procedures must flow through departmental controls with a focus on honesty and integrity. Ms. Gilman asked if other counties had implemented a Risk Policy that this Committee could review. Mr. Rahn responded that he was unaware of any but would pose this question to other in his firm to see if they are aware of any available policy that has been working. Chairman Munaretto asked if the eight points identified in the area of fraud prevention were "boiler plate" issues. Mr. Rahn responded that there were. Mr. Moy asked if there were any incidents that have occurred that created the points raised. Mr. Rahn responded that he was unaware of any such events and went on to recommend that when the broad issue of fraud is addressed the County must be specific. Ms. Gilman asked if this might be an issue for the Auditor to undertake. Mr. Rahn responded "absolutely." Chairman Munaretto noted the importance of having a strong internal audit function and a method for the Committee to examine and build on these observations and procedures on a regular basis. Mr. Rahn then responded to I.T. security issues. He stated that specifically this is not a "password" issue, but is an issue on the elimination of a user I.D.. The I.T. Department must work closely with the Human Resources Department to insure that when an employee is terminated or retired their user I.D. is deleted immediately. Mr. Hammerand observed that there could also be external fraud issues that were not addressed. Mr. Rahn noted that there could be, but the outside auditor does not address these concerns. He noted that such issues would include vendor invoices and charges for items that were not ordered or received. Ms. Gilman asked of the respond of the Valley-Hi Administrator was adequate to address concerns raised. Ms. Afseth felt that the response was appropriate noting that the Administrator is aware of the responsibility to process receivables in a timely manner. Ms. Gilman went on to ask if the County should notify its depositories of the new investment requirements. Ms. Rahn responded that although depositories may be aware of this, all should be advised by the County. Chairman Munaretto stated that he would discuss this

concern with the County Treasurer. Ms. Gilman asked who or what department would be responsible for the new requirement on capital assets and insurance recoveries which will be implemented on December 1, 2005. Mr. Rahn responded that Auditor's office would be responsible to make sure proper numbers are in place to account for these assets. He noted that GASB 40 and GASB 45 are larger issues that will need proper action. GASB 45 is driven by payroll policies and procedures. The Auditor would be part of the process but the County should have a study conducted by an outside actuarial firm to determine and understand the costs. GASB 45 will be implemented December 1, 2008. Mr. Rahn noted that GASB 45 deals with benefits paid to an employee upon retirement and does not address vacation or sick time. Mr. Moy asked if the County was in compliance with arbitrage. Mr. Rahn stated that his firm did not conduct an arbitrage study noting that typically an arbitrage study would be done by bond council. Ms. Chmiel asked if a "ghost" payroll test was conducted. Ms. Afseth responded that a "ghost" payroll test was not conducted, but a test was done to address payroll issues.

Noting no further questions, Mr. Moy made a motion, seconded by Ms. Kate, to recommend the County Board approve a Resolution authorizing accepting the Comprehensive Annual Financial Report for FY ending November 30, 2004. The motion carried with all members present voting aye on a roll call vote (Chmiel, Gilman, Hammerand, Kate, Moy and Munaretto).

NEW BUSINESS

Chairman Munaretto moved Mental Health Board items 4.3, 4.4 and 4.8 up on the agenda.

4.3 - Resolution authorizing an emergency appropriation for additional Teen Reach funding for the McHenry Health Board's FY 05 budget: Ms. Chmiel made a motion, seconded by Ms. Kate, to recommend the County Board approve a Resolution authorizing an emergency appropriation for additional Teen Reach funding for the McHenry Health Board's FY 05 budget. The motion carried with all members present voting aye on a roll call vote (Chmiel, Hammerand, Kate, Moy and Munaretto). Ms. Gilman was absent during this vote.

4.4 – Resolution authorizing emergency appropriations for the Mental Health Board's FY 06 Continuation Funding Agreements: Mr. Moy made a motion, seconded by Ms. Chmiel, to recommend the County Board approve a Resolution authorizing emergency appropriations for the Mental Health Board's FY 06 Continuation Funding Agreements. The motion carried with all members present voting aye on a roll call vote (Chmiel, Hammerand, Kate, Moy and Munaretto). Ms. Gilman was absent during this vote.

4.8 – Mental Health Board Retiree Discussion: Mr. Smith addressed the Committee and provided background information relative to his request to purchase out of State IMRF credit. This request was denied by the Human Resources Committee when it was originally proposed approximately two years ago. The Committee felt this was an unfunded liability and would set a precedent. Mr. Smith stated that the Mental Health Board supports this request and has agreed to pay for the IMRF contribution so there would be no future funding liability to the County. He noted that this request does not set a precedent since very few employees would qualify and the County should consider these requests on a case by case basis. He went on to report that the Public Health and Human Services Committee also supported this request, but the Human Resources Committee had denied the request with a vote of 5 to 2. Mr. Smith noted that his retirement date is June 30, 2005 and a decision must be determined prior to that date. Chairman Munaretto observed that Mr. Smith is asking for approval to purchase three years of out of State IMRF credit with the cost to Mr. Smith of \$30,000 and a cost to the County of \$45,000. He noted that the unknown issue is interest generated costs. Mr. Smith responded that the maximum liability to the County is \$45,000. Ms. Chmiel noted that a letter from Ms. Walker indicated that there are several variables that could affect employer rates. Mr. Smith stated that these were standard disclaimer statements. Chairman Munaretto pointed out that this is not a unique situation noting that teachers are also allowed to buy back services. Ms. Gilman stated that after yesterday's Human Resources meeting a call was made to IMRF. IMRF stated that Mr. Smith has applied and if the County Board acts on this request in July the request will be accepted by IMRF. Ms. Gilman stated that the County Board had asked that Mr. Smith bring his request to the full County Board. She asked why Mr. Smith had not done so. Mr. Smith responded that he was unclear as to what he was being asked to do by the Board. Mr. Larson pointed out that this request may never happen again and the Mental Health Board has agreed to provide the funding and Mr. Smith's request should be approved. Ms. Gilman stated that if the 708 Board wants to spend tax payer money in this way they should be allowed to do so. Chairman Munaretto stated this is fundamental fairness and should not require this much dialogue. Ms. Thomas agreed that the request is difficult to understand, but the Mental Health 708 Board

supports Mr. Smith's request and felt this was a way to reward an excellent long-term employee. After a discussion, the Committee requested that a Resolution be prepared for consideration at the next Finance and Audit Committee meeting (7/12/05), if approved it will go to the County Board on July 19th.

Resolution authorizing acceptance of Illinois Law Enforcement Alarm System (ILES) Grant and budget for said grant: Mr. Moy made a motion, seconded by Ms. Gilman, to recommend the County Board approve a Resolution authorizing acceptance of Illinois Law Enforcement Alarm System (ILES) Grant and budget for said grant. Mr. Weinhandl reported that these funds will be used to improve security site concerns including installing "security" planters on the east side of the Government Center. This is a stand-alone project. The motion carried with all members present voting aye on a roll call vote (Chmiel, Gilman, Hammerand, Kate, Moy and Munaretto).

Resolution authorizing the acceptance of the Illinois Department of commerce and Economic Opportunity Technical Assistance Grant #04-67147 and an emergency appropriation to the McHenry County Workforce Investment Board's FY 05 budget: Ms. Kate made a motion, seconded by Ms. Chmiel, to recommend the County Board approve a Resolution authorizing the acceptance of the Illinois Department of commerce and Economic Opportunity Technical Assistance Grant #04-67147 and an emergency appropriation to the McHenry County Workforce Investment Board's FY 05 budget. These funds will be used to install automatic door openers. The motion carried with all members present voting aye on a roll call vote (Chmiel, Gilman, Hammerand, Kate, Moy and Munaretto).

Resolution authorizing acceptance of the Annual Financial and Compliance Report for the Office of the Circuit clerk for year ending November 30, 2004: Mr. Moy made a motion, seconded by Ms. Gilman, to recommend the County Board approve a Resolution authorizing acceptance of the Annual Financial and Compliance Report for the Office of the Circuit clerk for year ending November 30, 2004. The motion carried with all members present voting aye on a roll call vote (Chmiel, Gilman, Hammerand, Kate, Moy and Munaretto).

Resolution authorizing a reclassification and mid-year salary adjustments in the State's Attorney's Departmental Roster and FY 2005 budget: Mr. Moy made a motion, seconded by Ms. Gilman, to recommend the County Board approve a Resolution authorizing a reclassification and mid-year salary adjustments in the State's Attorney's Departmental Roster and FY 2005 budget. Mr. Carroll provided a summary to this Resolution which will address changes in the Department as part of the overall reorganization. The motion carried with all members present voting aye on a roll call vote (Chmiel, Gilman, Hammerand, Kate, Moy and Munaretto).

OLD BUSINESS

The following items were deferred to a future Finance and Audit Committee meeting: Resolution identifying work contracts to installment purchase agreements for the Annex A project, Resolution identifying work contracts to installment purchase agreements for the Valley-Hi project and a Resolution identifying work contracts to installment purchase agreements for the Jail project.

Resolution amending Resolution #R-200405-17-148 designating depositories for funds and other public monies in the custody of the County Treasurer: Ms. Gilman made a motion, seconded by Mr. Hammerand , to recommend the County Board approve a Resolution authorizing amending Resolution #R-200405-17-148 designating depositories for funds and other public monies in the custody of the County Treasurer. The motion carried with all members present voting aye on a roll call vote (Chmiel, Gilman, Hammerand, Kate, Moy and Munaretto).

Resolution establishing uniform Real Estate Transfer Tax: Ms. Chmiel made a motion, seconded by Ms. Gilman, to recommend the County Board approve a Resolution establishing uniform Real Estate Transfer Tax. Ms. Koeller reported that the State had implemented a Real Estate Transfer Tax Law, but had failed to include Counties in this document. The State has since clarified this making it possible for counties to impose a tax at the same rate. Chairman Munaretto pointed out that if the County adopts this tax it would be imposing a transfer tax on any real estate held in a trust. He was opposed to such a tax noting that it would impose other segment to ownership rights. Ms. Gilman called the question. On a roll call vote, the motion failed with all members present voting nay (Chmiel, Gilman, Hammerand, Kate, Moy and Munaretto).

EXECUTIVE SESSION

Ms. Gilman made a motion, seconded by Mr. Moy, to enter executive session to discuss personnel and review previous executive session minutes. The motion carried with all members present voting aye on a roll call vote (Moy, Gilman, Kate, Chmiel, Hammerand and Munaretto).

Ms. Gilman made a motion, seconded by Ms. Chmiel, to return to regular session. The motion carried with all members present voting aye on a roll call vote (Moy, Gilman, Kate, Chmiel, Brewer, Hammerand and Munaretto).

The Committee was in executive session from 11:15 a.m. to 11:26 a.m.

REGULAR SESSION CONTINUED

Ms. Gilman made a motion, seconded by Ms. Chmiel, to approve the Executive Session minutes of May 24, 2005 for State's Attorney's review bur not for release. The motion carried with all members present voting aye on a voice vote.

OLD BUSINESS

Resolution authorizing a contract for the Associate County Administrator – Finance: The Committee amended the contract for the Associate County Administrator – Finance as follows: Section 3: base salary of \$96,140.00 for 2005; \$102,410 for 2006; and \$108,680 for 2007 and Section 7: remove the following wording "...and to make all the appropriate contributions on the Employee's behalf, for both the Employer and Employee share required." After making the above amendments, Ms. Gilman made a motion, seconded by Mr. Moy, to recommend the County Board approve a Resolution authorizing a contract for the Associate County Administrator – Finance. The motion carried with all members present voting aye on a roll call vote (Chmiel, Gilman, Hammerand, Kate, Moy and Munaretto).

REPORTS TO COMMITTEE

No reports were distributed.

ADJOURNMENT

Noting no further business, Ms. Chmiel made a motion, seconded by Mr. Moy, to adjourn the meeting at 11:30 a.m. The motion carried with a unanimous voice vote.

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RECOMMENDED FOR BOARD ACTION:

- Approve Resolution authorizing acceptance of Illinois Law Enforcement Alarm System (ILES) Grant and budget for said grant
- Approve Resolution authorizing the acceptance of the Illinois Department of commerce and Economic Opportunity Technical Assistance Grant #04-67147 and an emergency appropriation to the McHenry County Workforce Investment Board's FY 05 budget
- Approve Resolution authorizing an emergency appropriation for additional Teen Reach funding for the McHenry Health Board's FY 05 budget
- Approve Resolution authorizing acceptance of the Annual Financial and Compliance Report for the Office of the Circuit clerk for year ending November 30, 2004
- Approve Resolution authorizing accepting the Comprehensive Annual Financial Report for FY ending November 30, 2004
- Approve Resolution authorizing amending Resolution #R-200405-17-148 designating depositories for funds and other public monies in the custody of the County Treasurer
- Approve Resolution authorizing a contract for the Associate County Administrator – Finance
- Approve Resolution authorizing a reclassification and mid-year salary adjustments in the State's Attorney's Departmental Roster and FY 2005 budget

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