MARATHON COUNTY
Marathon County, Wisconsin

REPORT ON INTERNAL CONTROL
(Including Memorandum on Accounting Procedures, Internal
Controls and Other Matters)

December 31, 2001

MARATHON COUNTY

INDEX

Virchow, Krause & Company, LLP
Certified Public Accountants & Consultants

To the Marathon County Board of Supervisors and the
Finance and Property Committee
Marathon County, Wisconsin

In planning and performing our audit of the general purpose financial statements of Marathon County, Wisconsin for the year ended December 31, 2001, we considered the county's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. Such consideration would not necessarily disclose all matters in the internal controls that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal controls and their operations that we consider to be material weaknesses as defined above.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The following comments are related to procedural matters, which can be implemented by county staff. As always, you should consider the costs of making improvements to the expected benefits. This letter does not affect our report dated May 15, 2002 on the general purpose financial statements of Marathon County.

The matters noted are only those that came to our attention, and had our procedures in internal control related matters been more extensive, other matters might have been noted.

The functioning of the internal controls was assessed at a point in time, and no assurances can be drawn that the internal controls are functioning or will continue to function beyond the point in time at which it was assessed.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various county personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

Virchow Krause & Company LLP

Madison, Wisconsin
May 15, 2002

STATUS OF PRIOR YEAR POINTS

HIGHWAY DEPARTMENT CAPITALIZATION POLICY (PER 12/31/00 LETTER)

At December 31, 2001 there is $218,000 of highway department equipment that has been capitalized but is not being depreciated over the useful lives of the assets. This equipment is made up of individual items costing less than $2,000 and includes such items as radios, hand tools and office equipment.

In March of 2001, the Wisconsin Department of Transportation provided guidance to highway departments related to their capitalization policy. The capitalization policy increased the threshold from $500 to $2,000 and included three ways that the county could implement the change as follows:

1. Immediately write off all remaining book value of assets less than $2,000,
2. Continue to depreciate these items until the end of their estimated useful lives,
3. Write off a portion of the remaining book value over a set number of years.

We recommend that the county implement one of the three methods listed above to write off the book value of these assets.

Status (12/31/01)

In 2001 the Highway Department wrote off all equipment under $2,000 that was previously capitalized and will continue to follow the new capitalization thresholds provided by the Wisconsin Department of Transportation.

HIGHWAY DEPARTMENT INVENTORY PROCEDURES (PER 12/31/00 LETTER)

As part of our audit procedures, we tested the highway parts inventory for existence and valuation. We haphazardly selected fifteen parts at the Wausau location to test if the quantity in the inventory list matched the quantity of parts in the stock room. Of the fifteen items selected for testing, four did not equal the quantity of parts recorded in the system. In three of the cases, there were fewer items in the actual inventory than were reported in the inventory printout. We found no evidence on the signout sheet that the parts had been checked out.

It was noted during our inventory observation that the parts room is not a secure area and employees do have access to go and take parts out without proper documentation on the charge out sheet. This causes variances between the recorded inventory on the CHEMS system and the actual count and may result in a large adjustment of inventory value at year end and the possibility that parts are not being properly charged out to customers. Also loose controls in this area can lead to theft of parts by employees.

We recommend that access to the stock room be limited to only those persons who are responsible for the maintenance of the inventory and that the highway department develop procedures to ensure that all items taken from the parts room are properly charged out.

Status (12/31/01)

Management continues to look for ways to improve controls over its inventory. We noted no exceptions during our testing of inventory procedures during the 2001 audit.

STATUS OF PRIOR YEAR POINTS (cont.)

LANDFILL CLOSURE PAYABLE (PER 12/31/00 LETTER)

The county has set up a landfill closure payable for cell B to cover costs of closing the cell which is expected in 2008. To comply with the DNR's requirement that the county have $4,500,000 of funds on hand at the time of closing, the county is accumulating funds from the collection of tipping fees and investment earnings in an investment account that is monitored by the DNR. The estimated closure payable recorded at December 31, 2001 is equal to the book value of investments that the county has accumulated.

Under generally accepted accounting principles, the amount of the closure payable should reflect the anticipated closure costs that have been projected by the county's engineering firm as part of cell B's plan of operation and not the amount of funds the county has available for covering closure costs.

We recommend that the county evaluate the method it is using to calculate the closure payable to make sure that the balance recorded is actually based on projected costs of closing Cell B in 2008, which is independent of the amount of funds that the county has set aside for that purpose.

Status (12/31/01)

Management believes that their current way of presenting the closure payable is a conservative approach that records a larger payable than if they would base the computation on the engineers' reports. At this time, they feel a more conservative approach is more appropriate.

INFORMATION DISCLOSURES

GASB STATEMENT NO. 34

In the summer of 1999, the Governmental Accounting Standards Board (GASB) approved the most comprehensive government accounting rule ever developed.

Effective Dates

The new rules will start for the county for the year ended December 31, 2002. The retroactive reporting of infrastructure will be required for your year ended December 31, 2006.

Major Changes

The major changes facing the county as required by GASB 34 include:

- The financial statements must now include a Management's Discussion and Analysis section (MD&A). This will provide a narrative analysis of the statements and an analytical review of current financial activities.
- Government-wide financial statements (statement of net assets and statement of activities), along with the continuing presentation of fund financial statements, and notes to the financial statements, will comprise the basic financial statements for all governmental units.
- The government-wide financial statements will need to include infrastructure assets, as well as depreciation on all capital assets.

REQUIRED AUDIT COMUNICATIONS

The following points are to inform the County Board about significant matters related to the annual audit so that it can appropriately discharge its oversight responsibility of the financial reporting process.

OUR RESPONSIBILITY UNDER GENERALLY ACCEPTED AUDITING STANDARDS, OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT GUIDELINES

As described in our engagement letter dated October 18, 2000, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered Marathon County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with the requirements with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Guidelines.

As part of obtaining reasonable assurance about whether Marathon County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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. Also, in accordance with OMB Circular A-133 and the State Single Audit Guidelines, we examined, on a test basis, evidence about Rock County's compliance with the types of compliance requirements described in *the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the State Single Audit Guidelines applicable to each of its major federal and state programs for the purpose of expressing an opinion on Marathon County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Marathon County's compliance with those requirements.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of the financial statements are discussed in Note 1 to the primary government financial statements. There have been no material unusual transactions or controversial accounting issues.

As described in Note 21 to the financial statements, Marathon County changed accounting policies related to recording capital contributions by adopting Statement of Governmental Accounting Standards No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, in 2001.

REQUIRED AUDIT COMUNICATIONS (cont.)

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. We are not aware of any particularly sensitive accounting estimates utilized by management in its financial statement process.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgement, may not have been detected except through our auditing procedures. All audit adjustments have been made to the general purpose financial statements.

Other Information in Documents Containing Audited Financial Statements

All the information included in the financial statements has been audited. Our responsibilities are addressed in the Independent Auditors' Report.

Disagreements with Management

For purposes of this letter, professional auditing standards define a disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during our audit.

Consultations with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions from other independent accountants on auditing and accounting matters during the past year.

Issues Discussed Prior to This Year's Audit

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to performing the audit. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to the services performed as your auditor.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

CLOSING

In closing, we would like to thank you for allowing us to serve you. We are very interested in the long-term success of Marathon County, and our comments are intended to draw your attention to issues that need to be addressed for the county to meet its goals and responsibilities.

CLOSING (cont.)

This letter, by its nature, focuses on improvements and does not comment on the many strong areas of the county's systems and procedures. The comments and suggestions in this report are not intended to reflect in any way on the integrity or ability of the personnel of the county. They are made solely in the interest of establishing sound internal control practices and improving the county's financial operations. The county's staff seemed genuinely concerned about maintaining the county's financial reporting system so that informed decisions can be made. They were receptive to our ideas, comments and suggestions.

We will review the status of these comments during our next audit engagement. We have already discussed the previous comments and suggestions with various county personnel and we would be pleased to discuss them with you in further detail.