MARATHON COUNTY
Marathon County, Wisconsin

REPORT ON INTERNAL CONTROL

(Including Memorandum on Accounting Procedures, Internal Controls and Other Matters)

December 31, 2003

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 basic financial statements of Marathon County, Wisconsin for the year ended December 31, 2003, we considered its internal control 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. 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 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 12, 2004 on the basic financial statements of Marathon County.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

We will review the status of these comments during our next audit engagement. We have already discussed 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 these specified parties.

Virchow Krause & Company, LLP

Madison, Wisconsin
May 12, 2004

MANAGEMENT POINT

COUNTY TRAVEL POLICY

During our OMB Circular A-133 single audit testing, we selected employee expense reports for travel. During this process, we discovered that the county did not have a written policy addressing travel guidelines. In addition, it is our understanding that the department head travel was not approved by another individual in the county.

Recommendation

We recommend the county implement the following policies concerning employee travel expense reports:

- All employee expense reports should be approved by an appropriate level of management. We also recommend that department head expense reports be approved by either the County Administrator or respective board or committee overseeing the department.
- Significant travel should be approved in advance of registration.
- Cancelled travel arrangements should be avoided to the extent possible.
- Procedures should be developed to increase the controls surrounding the cancellation of travel when it is necessary, including airline credits and refund checks.

It is our understanding that the county has already begun to put some of these recommended procedures in place.

STATUS OF PRIOR YEAR POINTS

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 has $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, 2003 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 (12/31/03)

Management recorded the landfill closure payable for cell B at December 31, 2003 in accordance with GASB No. 18 *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs* based on the anticipated closure costs projected in the plan of operation prepared by the county's engineering firm.

INFORMATIONAL DISCLOSURES

New Auditing Standard

As part of our audit of your financial statements for the year ended December 31, 2003, we were required to follow a significant new auditing standard, or rule.

The new standard has been designed to increase the likelihood of finding unidentified material fraud. SAS No. 99 (Statement on Auditing Standards) requires the auditor to identify and assess risks due to fraud which could result in materially misstated financial statements.

The purpose of an audit is for the auditor to express an opinion as to whether the financial statements of the organization are materially correct. In other words, do the financial statements present the county's financial position and results of operations fairly and consistently? The term material is used to describe the concept that the audit is focused on dollar amounts in the financial statements that are significant, rather than auditing small and, perhaps, less meaningful amounts.

The auditing standards state that the auditor is to obtain reasonable assurance that the financial statements are free of material misstatement. SAS No. 99 requires the auditor to specifically identify and assess risks due to fraud that may result in materially misstated financial statements. (The auditor does not have the same responsibility for errors or fraud which are not material to the financial statements.) Management is still responsible for establishing the appropriate controls to prevent, deter, and detect fraud.

How does this impact the county? As auditors, we still have the same responsibility for detection of material financial misstatement due to fraud as we did in the past. Now we are more focused on how to do that, and we are required to document our efforts in new ways. For example, we now ask more questions about internal controls, segregation of duties and management's internal assessment of fraud risk. The audit team brings a heightened level of professional skepticism to the audit.

The new standard will benefit the county and the public with financial statements that are more useful and accurate, with less risk of unidentified fraud occurring. But even a properly planned and completed audit may not detect a material fraud because deception and concealment are a natural part of any fraud. Auditing standards continue to clearly state that it is management's responsibility to design and implement procedures and controls to prevent, deter, and detect fraud.

INFORMATIONAL DISCLOSURES (cont.)

NEW AUDITING STANDARD (cont.)

How can management of the county contribute to the success of the organization in the area of fraud prevention?

1. You should complete an evaluation of fraud risks within the county.
2. You should communicate the importance of ethical behavior and appropriate business practices to all employees.
3. Whenever possible, you should implement controls to address fraud risks. Such controls should help prevent, deter and detect fraud.
4. Controls that you implement should be monitored for proper use, and continuity.
5. Non-centralized locations are especially sensitive to fraud. Those locations should receive close evaluation and monitoring.
6. The governing body should be aware of the county's fraud risks and controls related to those risks.
7. Management should assess and be aware of any issues of non-compliance with laws and regulations within the county.
8. Management should assess and be aware of employees with significant financial difficulties.

In a nutshell, you should consider where fraud may occur in your organization, and do what you can to minimize that risk, within reasonable cost parameters. Finally, this increased emphasis on fraud is a direct result of frauds that have occurred throughout the United States in the past two years. As a result of those frauds, the new auditing standard SAS No. 99 was passed. This is not the end of the changes. Seven more new auditing standards are expected to be passed during 2004, which will further impact what we are required to do as auditors and how we communicate with you, the governing body.

REQUIRED COMMUNICATIONS WITH THE COUNTY BOARD

We are required to communicate with the County Board about the following issues:

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

As stated 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 misstatements 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 requirements that could have a direct and material effect on a major federal or state 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.

Our Responsibility under U.S. Generally Accepted Auditing Standards, OMB Circular A-133, and the State Single Audit Guidelines (cont.)

As part of obtaining reasonable assurance about whether Marathon County's financial statements are free of material misstatement, we perform 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 is not an objective of our audit. Also, in accordance with OMB Circular A-133 and the State Single Audit Guidelines, we examine on a test basis, evidence about Marathon 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.

Other Information in Documents Containing Audited Financial Statements

If the audited financial statements are included in a client-prepared document, such as an official statement for a bond offering, the following information should be communicated:

a. A statement that the auditors' responsibility for other information in documents containing the governmental unit's financial statements and report does not extend beyond the financial information identified in the report.

b. A statement that the auditor does not have an obligation to perform any procedures to corroborate other information contained in these documents.

c. A description of any procedures performed (such as reading the information)

d. The results of those procedures (for example, wording such as "nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements").

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used in the preparation of the financial statements are discussed in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2003. We noted no transactions entered into by Marathon County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

1. Management's estimate of the landfill closure and long-term care liabilities are based on engineering estimates of closure and post closure costs. We evaluated the key factors and assumptions used to develop the landfill closure and long-term care liabilities in determining that it is reasonable in relation to the financial statements taken as a whole.

2. Management's estimate of the self insured health, dental and worker's compensation claim liability is based on annual actuarial evaluations of the individual employee benefit programs. We evaluated the key factors and assumptions used to develop the claims liability in determining that is it reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Marathon County's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed indicate matters that could have a significant effect on the Marathon County's financial reporting process.

All audit and bookkeeping adjustments we prepared were included in your financial statements. Copies of these adjustments are available from management.

Disagreements with Management

For purposes of this letter, professional auditing standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, 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

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

REQUIRED COMMUNICATIONS WITH THE COUNTY BOARD (cont.)

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.

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.