MARATHON COUNTY

Marathon County, Wisconsin

REPORT ON INTERNAL CONTROL

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

December 31, 2009

MARATHON COUNTY

INDEX

	Page No.
Internal Control Over Financial Reporting	1
Internal Accounting Controls	2
Departmental Controls	3
Current Year Points	5
Internal Service Funds	5
Information Technology	5
Prior Year Point	6
Landfill Closure and Post Closure Care Costs	6
Two Way Communication Regarding Your Audit	6
Informational Disclosures	8
GASB No. 51: Accounting and Financial Reporting for Intangible Assets	8
GASB No. 54: Fund Balance Reporting	8
Sales Tax Issues	8
Required Communications with the County Board	9
Closing	12
Management Representations	

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

In planning and performing our audit of the financial statements of Marathon County as of and for the year ended December 31, 2009, 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 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

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 deficiency in the county's internal control to be a material weakness:

> Internal Control Over Financial Reporting

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 following deficiencies in the county's internal control to be significant deficiencies:

> Internal Accounting Controls
> Departmental Controls

Marathon County's written response to the significant deficiencies and material weakness 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 management, those charged with governance, 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

Madison, Wisconsin
July 27, 2010

INTERNAL CONTROL OVER FINANCIAL REPORTING

As in previous years, we are required to comment on your internal controls. In theory, a properly designed system of internal controls consists of enough people, with sufficient training, to process and record monthly transactions, as well as prepare a complete set of annual financial statements.

The definition of a material weakness in internal control includes consideration of the year end financial reporting process including the preparation of financial statements. In order for your county to avoid this type of material weakness, the system of internal controls would need to be able to accomplish the following:

1. Maintain the county's books and records in such a condition that the auditor is not able to identify any material journal entries as a result of our audit procedures. For the 2009 audit, one material journal entry was detected as a result of the audit procedures performed which indicates that the controls were not effective enough to prevent the material misstatement. In addition, the county prepares year-end GASB No. 34 conversion entries as part of the financial statement preparation process. These conversion entries and supporting documentation should be reviewed and approved by someone at the county that is both familiar with the financial reporting requirements and who is not the original preparer. This was not done for the 2009 audit.

2. Prepare a complete set of year end financial statements with a very high level of accuracy such that there is only a remote likelihood that the auditor will discover a material change to the statements or footnotes. Thus, if the auditor discovers a material change, by definition, the system of internal control over financial reporting must have a material weakness. For the 2009 audit, the county once again prepared a complete set of year end financial statements but the procedures and controls were not effective in preventing material changes to the financial statements by the auditors.

This high level of internal control over financial reporting can be a difficult task for governments. With limited resources already straining governments, and the numerous challenges presented by governmental accounting requirements, avoiding a material weakness in this area can be a significant challenge. Because of the reasons stated above, we are required to inform you that these are material weaknesses in your internal controls.

Management Response

The County has implemented procedures for county personnel that prepare the financial statements to review transactions and accounts so that the financial statements would be free of any material errors. The County reviewed transactions and accounts that met transaction dollar limits, reviewed transactions during the year and completed additional pre-audit work to verify all transactions were appropriate. The County takes the accuracy of its financial reporting very seriously and will continue to strive to create financial statements that are free of material misstatement.

The Finance Director completes all of the government-wide financial statements using the data generated from financial information within the County. The County does not have ample staff in order to completely review all government-wide transactions and financial statements. Marathon County is one of the only Wisconsin Counties that completed its own statements and therefore most likely is more diligent in reviewing all government-wide transactions and creating accurate statements. In the future, if staffing capacity allows, the County will attempt to have additional resources within the department review the final GASB 34 entries and additional review of the financial statements.

INTERNAL ACCOUNTING CONTROLS

As a result of our audit procedures, we are able to provide to you information about where your controls over transactions either do not exist, or could be improved.

Below is a list of potential controls that should be in place to achieve a higher level of reliability that errors or irregularities in your processes would be discovered by your staff. Our procedures identified that these controls do not currently exist, or are not documented, for Marathon County. Keep in mind that some of these controls may not be practical due to your staff size or other reasons. However, we are required to communicate these to you. In addition, as you make changes within your county, and we continue to rotate audit procedures, more controls of this kind will likely be communicated to you.

CONTROLS OVER ACCOUNTS PAYABLE/DISBURSEMENTS

There should be an appropriate system for review and approval of vendors.

ENTITY-WIDE CONTROLS

A formal fraud risk evaluation process should be in place. This is a control process that should exist and be performed by a newly created audit committee, the finance committee, or similar organization.

A next step might be to have a designated person in your organization review these potential controls and make a suggestion on your county's ability and cost (including time) to implement some or all of them. We are available to assist you if requested.

Management Response

The County has created internal accounting procedure manuals for each of our accounting software applications. These manuals allow an accounting software user to create and process transactions through an accounting cycle. County Finance Department provides training and has written accounting procedure manuals for many of the major accounting cycles. These manuals are on the intranet for the employees to access.

Controls over Accounts Payable/Disbursements

The County has changed several of its accounts payable processing procedures to create a more comprehensive control over this accounting cycle. These efforts include the following:

- The Finance Department has eliminated the ability for all Cayenta AP users to add one-time vendors to the vendor list. There are several employees that do have access to the one-time vendor for certain purposes.
- The Finance Department has limited the number of employees whose primary job is to add new vendors. This information has been communicated to the accounting staff in each County department.
- The Finance Department does review new vendors for large dollar purchases.

Entity-Wide Controls

- The Finance, Property and Facilities Committee does review the CAFR, Internal Control Letter, Management Response and Single Audit Report.

DEPARTMENTAL CONTROLS

DEPARTMENTAL CONTROLS

As part of our annual audit process, we focus our efforts on the primary accounting systems, internal controls, and procedures used by the county. This is in keeping with our goal to provide an audit opinion which states that the financial statements of the county are correct in all material respects.

In some cases, the primary system of accounting procedures and controls of the county are supported by smaller systems which are decentralized, and reside within a department or location. In many cases, those systems are as simple as handling cash collections and remitting those collections to the county treasurer. (For example, this would be the case in a typical municipal swimming pool.) In other cases, the department may send invoices or statements of amounts due, and track collections of those amounts in a standalone accounts receivable system. (For example, this would be the case in a typical municipal court.)

Generally, the more centralized a function is, the easier it is to design and implement accounting controls that provide some level of checks and balances. That is because you are able to divide certain tasks over the people available to achieve some segregation of duties. For those tasks that are decentralized, it is usually very difficult to provide for proper segregation of duties. Therefore, with one person being involved in most or all aspects of a transaction, you lose the ability to rely on the controls to achieve the safeguarding of assets and reliability of financial records.

As auditors, we are required to communicate with you on a variety of topics. Since there is now more emphasis on internal controls and management's responsibilities, we believe it is appropriate to make sure that you are informed about the lack of segregation of duties that may occur at departments or locations that handle cash or do miscellaneous billing. Examples in your county that fit this situation may include the following:

Clerk of Courts	Solid Waste
Parks Department	Airport
Register of Deeds	Health Department
Sheriffs Department	Highway

As you might expect, similar situations are common in most governments.

As auditors, we are required to focus on the financial statements at a highly summarized level and our audit procedures support our opinion on those financial statements. Departments or locations that handle relatively smaller amounts of money are not the primary focus of our audit. Yet, because of the lack of segregation of duties, the opportunity for loss is higher there than in centralized functions that have more controls.

Because management is responsible for designing and implementing controls and procedures to detect and prevent fraud, we believe that is important for us to communicate this information to you. We have no knowledge of any fraud that has occurred or is suspected to have occurred within the departments mentioned above that you are not already aware of. However, your role as the governing body is to assess your risk areas and determine that the appropriate level of controls and procedures are in place. As always, the costs of controls and staffing must be weighed against the perceived benefits of safeguarding your assets.

Without adding staff or splitting up the duties, your own day-to-day contact and knowledge of the operation are also important mitigating factors.

DEPARTMENTAL CONTROLS (cont.)

Management Response

One issue that is listed in the 2009 Report on Internal Controls states that, "the lack of segregation of duties that may occur at departments or locations that handle cash or do miscellaneous billing."

In the past, the County used a separate system for cash receipting. In June 2009, the County has rolled out a new comprehensive cash receipting software from our current financial software vendor. This application is continuing to provide for more consolidation of the cash receipting allowing the County to create county-wide comprehensive internal control procedures for this accounting cycle.

As mentioned above, evaluating and documenting the internal control procedures for each accounting cycle will also assist in providing management the opportunity to create additional segregation of duties. As a part of this process, staff from the Finance Department would meet with various departments and evaluate different aspects of the accounting cycles in order to identify opportunities for additional segregation of duties. The County management will continue to look at ways we can mitigate the risk posed by the lack of segregation of duties in the departments identified in your letter.

DECENTRALIZED ACTIVITIES

It is common for county departments to collect cash and prepare accounting records before the funds are transferred to the county treasurer or recorded in the county's main accounting system.

During our review of the Parks Department cash controls, we noted that the administrative officer is currently responsible for preparing invoices, collecting payments on those invoices, processing deposits for the county treasurer's office, updating detailed accounting records, and delivering the cash to the county treasurer's office. The combination of these financial responsibilities for one person without compensating controls results in a weakness in internal controls.

We also discovered that cash boxes at the Nine Mile recreation area are taken home nightly by shooting range employees.

We recommend that the procedures in the Parks Department be reviewed and internal controls strengthened. This may be able to be accomplished by directing payors to send all invoiced amounts directly to the county treasurer's office so that there is separation between custody (treasurer) and accounting for (parks) the assets.

Management Response

The County Treasurer and Finance Director have met with the Park's Department Supervisor and Administrative Officer and discussed additional procedures that would create more segregation of duties. The largest customer for the County Parks department is the City of Wausau and we have created the invoice for the City billing, transmitted it to the City electronically, and the payment is directly sent to the County Treasurer's office for the application of the payment against the invoice. The County Treasurer and Finance Director ask the County Administrator's office to assist in getting compliance from the Park Department for improving its internal controls over cash particularly over cash in remote locations.

CURRENT YEAR POINTS

INTERNAL SERVICE FUNDS

The purpose of Internal Service Funds is to account for operations being managed on a cost reimbursement basis. Because the intent of these funds is to facilitate cost allocation, accumulation of resources or deficits over the long term is considered inappropriate. Theoretically, internal service funds would come close to breaking even each year.

The county has two Internal Service Funds, the Property Casualty Insurance fund, and the Employee Benefits Insurance fund. Each of these funds has accumulated significant retained earnings. The Employee Benefits Insurance fund had a gain of $1,081,619 for 2009, resulting in $9,561,099 of retained earnings at year end, which is about 10 months of expenses. Considering that the county is no longer self insured for health insurance, the county may want to consider options for these accumulated resources. The Property Casualty Insurance fund did have a loss of $24,025 for 2009 but still maintained retained earnings in the amount of $5,608,588 at year end. This represents approximately seven years worth of what the average ($76,208) expenses have been for this fund. Based on the significant retained earnings balances at year end, we recommend the county determine if the rates being charged to other funds is appropriate or if they should be adjusted to more accurately represent the cost of providing these services.

Management Response

Even though the County has chosen to use Group Health Trust to pool its Health insurance risk, the County still has the option to self-insure its health insurance in future years. The County is planning in its 2011 budget to apply $500,000 of its Employee Benefits Retained Earning to offset health insurance premium for the 2011 budget.

INFORMATION TECHNOLOGY

As part of our 2009 audit, we evaluated information technology controls as they relate to financially significant applications. Our procedures primarily focused on documenting and evaluating general computer controls, including:

- Logical access to data and applications
- Change and incident management
- System development and deployment
- Data backup and recovery

During our audit we noted that the county does not formally review access levels on a regular basis. We recommend that access rights be reviewed at least once a year by management to ensure users do not have access beyond their job responsibilities and segregation of duties is maintained.

Management Response

The County will review its financial system user access by employees as part of its 2010 Cayenta training. Each department head will receive a listing of all employees with Cayenta access and need to return to the Finance Department the list of employees needing access and training on Cayenta. The Finance Department will also review the training list for appropriateness of Cayenta access.

PRIOR YEAR POINT

LANDFILL CLOSURE AND POST CLOSURE CARE COSTS (PER 12/31/08 LETTER)

The county has not had a third party prepare an engineering study regarding the estimated closure and post closure care costs relating to the landfill for numerous years. Each year, the county has been increasing the cost by an inflationary amount.

We recommend that the county have a new engineering study completed by a third party, to ensure these cost estimates are still accurate.

Status (12/31/09)

A new study was not completed for 2009, however; the county is in the process of having a new engineering study completed to determine the closure and post closure care costs relating to the landfill. The study will be completed by the end of 2010. The study should be updated every 2-3 years.

Management Response

The Finance Director has discussed the necessity of a new engineering study with the County's Solid Waste director.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.

b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:

   > Identify types of potential misstatements.
   > Consider factors that affect the risks of material misstatement.
   > Design tests of controls, when applicable, and substantive procedures.

   We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with Government Auditing Standards, our report will contain the following restriction: "This report is intended solely for the information and use of the client's management, others within the county, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties."

c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

We are very interested in your views regarding certain matters. Those matters are listed here:

a. We typically will communicate with your top level of management unless you tell us otherwise.

b. We understand that the county board has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.

c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.

d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?

e. Have you had any significant communications with regulators?

f. Are there other matters that you believe are relevant to the audit of the financial statements?

Also, is there anything that we need to know about the attitudes, awareness, and actions of the county concerning:

a. The county's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?

b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. We usually perform preliminary audit work during the months of October-December. Our final fieldwork is scheduled during April and May to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our audit procedures at our office and review drafts of your client prepared Comprehensive Annual Financial Report. Final copies of our audit opinion and other communications are issued shortly thereafter.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

INFORMATIONAL DISCLOSURES

GASB No. 51: Accounting and Financial Reporting for Intangible Assets

Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software (purchased or internally written).

Statement No. 51 requires that all intangible assets be classified as capital assets (except for a few minor exclusions). Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to intangible assets, as applicable.

That means that you should treat costs incurred for intangible assets the same as you would treat costs incurred for other capital assets like a truck or building. Intangible assets will be written off over their useful lives (using amortization).

You are also required to implement the new rules retroactively. That means if you have intangible assets that were acquired in previous years, you will need to go back and determine those costs so that you can record the asset and amortization currently. Those amounts should be recorded as of January 1, 2010. Assets with indefinite useful lives (such as easements) and internally generated software are exempt from the retroactive calculation.

These new rules are effective for your year ending December 31, 2010. We can assist you with the details of the accounting aspects of this requirement at the appropriate time.

GASB No. 54: Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, which changes governmental financial reporting. These changes will affect your financial statements for the year ended December 31, 2011, primarily the governmental fund's balance sheet presentation. No changes are necessary for proprietary fund types or government-wide statements. The major change is to the terminology used for fund balance reporting. The terms reserved, unreserved, designated, and undesignated are being replaced with the following categories: nonspendable, restricted, committed, assigned, and unassigned. The new categories are designed to promote more consistent financial reporting throughout the nation.

The GASB made these changes to fund balance reporting to make it easier for the reader of financial statements to determine the various levels of restrictions that exist for the future use of fund balance. In addition to the new method for displaying fund balances, the Statement also clarifies the definitions of the various governmental fund types. You will want to understand the new rules in time for you to make necessary changes for your 2011 budget. These changes could impact state aid calculations. You will also need to consider adopting fund balance policies so that options available in GASB No. 54 can be fully used by your government. We can assist you with getting ready for these changes.

Sales Tax Issues

Governments, like most business entities, are required to collect sales taxes when they "sell" certain services and commodities to their citizens. Unlike most private businesses, most of what governments provide to their citizens are not taxable sales, but some are.

Two issues arose during 2009 that may merit your attention. First, the Department of Revenue has notified governments that billing property owners for "weed control" is a taxable event and the government should be collecting and remitting sales taxes on those charges.

INFORMATIONAL DISCLOSURES (cont.)

SALES TAX ISSUES (cont.)

Second, state laws were changed for the following circumstance. If a unit of government sells a vehicle to a private party, the government is now responsible for collecting sales taxes on the transaction and providing proof of that collection to the purchaser. This is a change from prior practice, where the purchaser of the vehicle had sole responsibility for the sales tax.

As usual, the actual rules are fairly complex. The Wisconsin Department of Revenue has a document called *"Sales and Use Tax Information for Wisconsin Counties and Municipalities"* at its web site: www.revenue.wi.gov/pubs/pb209.pdf.

REQUIRED COMMUNICATIONS WITH THE COUNTY BOARD

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT GUIDELINES

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards,* OMB Circular A-133, and the State Single Audit Guidelines. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or those charged with governance of their responsibilities.

We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal or major 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.

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 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

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you the 2008 Report on Internal Control and our meeting with you on August 24, 2009.

Qualitative Aspects of the Entity's Significant Accounting Practices

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 by Marathon County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. 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:

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

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 benefits programs. We evaluated the key factors and assumptions used to develop the claim's liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the Other Postemployee Benefits (OPEBs) liability is based upon information provided to actuaries contracted with by the county. We evaluated the key factors and assumptions used to develop the OPEB liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear.

REQUIRED COMMUNICATIONS WITH THE COUNTY BOARD (cont.)

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

AUDIT ADJUSTMENTS

Professional standards require us to accumulate all known and likely misstatement identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional 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 the course of our audit.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters. 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.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter. This letter is attached.

INDEPENDENCE

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and Marathon County that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of for the year ended December 31, 2009, Baker Tilly Virchow Krause, LLP hereby confirms in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, that we are, in our professional judgment, independent with respect to Marathon County and provided no services to Marathon County other than the audit of the current year's financial statements and the following nonaudit services, which in our judgment, do not impair our independence.

- Material changes to the financial statements and related disclosures
- Adjusting journal entries
- Tax 16 preparation

REQUIRED COMMUNICATIONS WITH THE COUNTY BOARD (cont.)

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Marathon County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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.

COUNTY OF MARATHON

COURTHOUSE WAUSAU, WISCONSIN 54403-5568

FINANCE DEPARTMENT
(715) 261-1170

July 27, 2010

Baker Tilly Virchow Krause, LLP
Ten Terrace Court
P.O. Box 7398
Madison, WI 53707-7398

Dear Auditors:

We are providing this letter in connection with your audit of the financial statements of Marathon County as of December 31, 2009 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Marathon County and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.

2. We have made available to you all –

   a. Financial records and related data (and all audit or relevant monitoring reports, if any, received from funding sources.)

   b. Minutes of the meetings of the county board or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal and state awards.

5. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
   a. Management,
   b. Employees who have significant roles in internal control, or
   c. Others where the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.

9. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of this audit being undertaken and the corrective actions taken to address significant findings and recommendations.

10. The county has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.

11. The following, if any, have been properly recorded or disclosed in the financial statements:

    a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

    b. Guarantees, whether written or oral, under which the municipality is contingently liable.

    c. All accounting estimates that could be material to the financial statements including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.

12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

13. There are no –

    a. Violations or possible violations of budget ordinances, provisions of contracts and grant agreements, laws or regulations including those pertaining to adopting and amending budgets, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance.

    b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies.*

    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.

    d. Reservations or designation of fund equity that were not properly authorized and approved.

    e. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.

    f. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

14. Marathon County has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

15. The county has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

16. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

17. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.

18. The financial statements properly classify all funds and activities.

19. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

20. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.

21. Provisions for uncollectible receivables have been properly identified and recorded.

22. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.

23. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.

24. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

25. Deposits and investment securities are properly classified as to risk, and investments are properly valued.

26. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.

27. Required supplementary information (RSI) is measured and presented within prescribed guidelines.

28. We assume responsibility for, and agree with, the findings of specialists in evaluating the IBNR's and GASB 45 OPEB liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.

29. In regards to the nonattest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

    a. Modifications to financial statements and related disclosures
    b. Adjusting journal entries
    c. Tax 16 preparation

30. With respect to federal and state award programs –

    a. We are responsible for complying and have complied with the requirements of the Single Audit Act Amendments of 1996, OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, the State Single Audit Guidelines, and any other applicable laws and regulations and provisions of contracts and grant agreements.

    b. We have, in accordance with OMB Circular A-133, prepared the schedule of expenditures of federal awards, and have included in the schedule expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance.

30.(cont.)

c. We are responsible for complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal and state program.

d. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal and state programs that provide reasonable assurance that we are managing our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.

e. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relating to each major federal and state program.

f. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.

g. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement and the State Single Audit Guidelines, relating to federal and state awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the requirements of federal and state awards, including the results of other audits or program reviews.

h. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments, and OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

i. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

j. We have charged costs to federal and state awards in accordance with applicable cost principles.

k. We have made available to you all documentation related to the compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.

30.(cont.)

l. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared, and are prepared on a basis consistent with the schedule of expenditures of federal and state awards.

m. The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.

n. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133 and the State Single Audit Guidelines.

o. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of a subrecipient's auditor's report that identifies noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.

p. We have considered the results of subrecipients' audits and made any necessary adjustments to our books and records.

q. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and the State Single Audit Guidelines and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.

r. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.

s. We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organization relating to noncompliance at the service organizations.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Sincerely,

MARATHON COUNTY

Signed: _____
Brad Karger, County Administrator

Signed: _____
Kristi Kordus, Finance Director