MARATHON COUNTY

Wausau, Wisconsin

COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2012

MARATHON COUNTY

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REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE

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

In planning and performing our audit of the financial statements of Marathon County as of and for the year ended December 31, 2012, 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 that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not 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 Control Environment
> Decentralized Activities

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, the county board, 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
June 28, 2013

INTERNAL CONTROL OVER FINANCIAL REPORTING

Auditing standards require that we perform procedures to obtain an understanding of your government and its internal control environment as part of the annual audit. This includes an analysis of the County's year-end financial reporting process and preparation of your financial statements. A properly designed system of internal control allows for the presentation of year-end financial data and financial statements without material errors. At this time, the County does not have internal controls in place that allow for the presentation of materially correct year-end financial statements. As a result, we consider this absence of controls to be a material weakness in internal control over the County's financial reporting.

To provide some perspective, establishment of such internal controls can be a difficult task for governments. Many governments do rely on their auditors to prepare certain year-end adjusting entries and prepare the year-end financial statements. Because the auditors are not involved with the County's day-to-day activities, it is important that management have the skills, knowledge, and experience to review the audit adjustments and financial statements prepared by the auditors to ensure completeness, accuracy, and consistency with management's knowledge of transactions impacting the County during the year.

Management's 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.

If in the future, if staffing capacity allows, the County will attempt to have additional resources within the department review the final financial transactions and entries and development the comprehensive annual financial report in house.

INTERNAL CONTROL ENVIRONMENT

Auditing standards require that we perform procedures to obtain an understanding of your government and its internal control environment as part of the annual audit. This includes an analysis of significant transaction cycles and other areas. A properly designed system of internal control includes adequate staffing, policies, and procedures to properly segregate duties. This includes systems that are designed to limit the access or control of any one individual to your government's assets, and to achieve a higher likelihood that errors or irregularities in your processes would be discovered by your staff

At this time, the County does not have the following controls in place:

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 the County 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.

Current Year Status

This comment is still valid.

INTERNAL CONTROL ENVIRONMENT (cont.)

CONTROLS OVER CASH

Bank reconciliations for the County's general checking account are being performed by someone who is independent of processing transactions flowing through the checking account. However, this bank reconciliation is not being independently reviewed and documented as such.

Current Year Status

This comment is still valid. The absence of these key controls is considered to be a significant deficiency. Achieving adequate segregation of duties may not be cost beneficial to attain in all situations. However, it is very important that management and the governing body provide the appropriate level of financial oversight to the County's day-to-day activities. We recommend that the County consider the benefits of implementing additional policies and procedures to address key controls related to its significant transaction cycles, as noted above.

Management's Response

<u>Entity-Wide Controls</u>

> The Finance and Property Committee does review the CAFR, Communication to Those Charged with Governance, the Management Response and Single Audit Report.

> If in the future, if staffing capacity allows, the County will attempt to have additional resources within the County to designate staff to review potential entity-wide internal controls and implement necessary changes.

<u>Controls Over Cash</u>
The County does verify decentralize bank accounts by someone independent of the processing transactions. We will initiate a similar procedure for the County's general checking account as well

DECENTRALIZED ACTIVITIES

LIBRARY

The Marathon County Public Library collects fines and other funds from services provided. These collections are maintained in either the cash register or one of the several cash boxes at various service areas. When amounts collected are closed out and brought over to the county treasurer for deposit, the library is not able to generate a report from their system that can be used to reconcile to the collections being deposited. We recommend library personnel work with their vendor of the library management system to determine if a report is available that could be used to balance to collections. If this report is not possible, we recommend library personnel, not involved in the collection process, closely monitor collection activity on a regular basis and investigate any unusual fluctuations.

In addition, the library currently reports a substantial balance for receivables related primarily to overdue items. These items should be reviewed for collectability and a determination made if any should be written off as uncollectible.

Current Year Status

This comment is still valid. The absence of these key controls is considered to be a significant deficiency.

LIBRARY (cont.)

Management's Response

The consortium that owns and operates our library management software has contracted for a substantially more robust software system to replace the current one that is unable to track financial transactions.

The Library Management maintains oversight of monies which come into the business office and will continue to look for reasonableness in ongoing deposits compared to historical norms.

As for the volume and quality of our receivables, we initiated a conversation with Corporation Counsel in early 2012 in order to determine reasonableness and ramifications of writing down monies owed to Marathon County Public Library. A substantial lack of backup information for most of the money owed to us made us decide to first put the current information into the new system so that we can use the tools it offers to best analyze that which is not reasonably collectable. When we have exhausted opportunities for collections in the new system, a process which should be completed in 2013, we will approach our Board of Trustees with a request for the approval of writing down uncollectable receivables.

CENTRAL WISCONSIN AIRPORT

The Central Wisconsin Airport (CWA) invoices throughout the year for items such as terminal space leasing, fuel sales, hangar lease, and other items. Payments are sent directly to CWA and deposited by CWA staff once per month. Deposited amounts are approximately $160,000 to $170,000 per month. We recommend the County and CWA determine if payments could be sent directly to the County Treasurer's office for daily deposit. If this is not possible the collections at CWA should be deposited on a more frequent basis.

Management's Response

The County will be changing the Accounts Receivable billing practices the 3rd or 4th quarter of 2013 to have payments directed to the County Treasurer's office. The County Treasurer and Finance Director will work with CWA to determine if we can have monthly rental payments sent directly to the Treasurer's office.

OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE

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 include a paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance and, (c) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose.

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.

d. We address the significant risks or material noncompliance, whether due to fraud or error, through our detailed audit procedures.

e. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material noncompliance related to the federal and state awards 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 the federal and state awards and to determine whether they have been implemented. We will use such knowledge to:

   - Identify types of potential noncompliance.
   - Consider factors that affect the risks of material noncompliance.
   - Design tests of controls, when applicable, and other audit procedures.

Our audit will be performed in accordance with U.S. generally accepted auditing standards, *Government Auditing Standards*, OMB Circular A-133, and the *State Single Audit Guidelines*.

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 OMB Circular A-133 and the *State Single Audit Guidelines*, our report will include a paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance and, (c) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and OMB Circular A-133 in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

f. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for reporting material noncompliance 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 entity's federal and state awards. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material noncompliance, whether caused by error or fraud, is detected.

g. Your financial statements contain components, as defined by auditing standards generally accepted in the United States of America, certain components which we also audit.

h. In connection with our audit, we intend to place reliance on the audit of the financial statements of the North Central Health Care, a component unit of Marathon County, as of December 31, 2012 and for the year then ended completed by WIPFLI, LLP. All necessary conditions have been met to allow us to make reference to the component auditor.

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 or grantor agencies?

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

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?

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

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 issue drafts of our reports for your review. Final copies of your report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors.

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.

COMMUNICATION OF OTHER CONTROL DEFICIENCIES, RECOMMENDATIONS AND INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES

CURRENT YEAR POINTS

DECENTRALIZED ACTIVITIES – CONSERVATION, PLANNING, AND ZONING DEPARTMENT

One individual in the conservation, planning and zoning department is responsible for invoicing approximately $300,000 per year, collecting those funds, receipting, monitoring, receivables, and preparing the daily collections for deposit with the County Treasurer's office. The combination of these financial responsibilities residing with one person results in a weakness in internal controls. We recommend the County determine how to further segregate these responsibilities.

Management's Response

The new CPZ director is looking at restructuring the department and creating an Office Manager position that would oversee financial transactions but not complete all the duties of the current staff position. This should eliminate many of the concerns that are listed in the auditor's comment.

INFORMATION TECHNOLOGY

As part of our 2012 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

From our review, we have identified the following areas where we recommend controls be reviewed and potentially strengthened.

Logical and Physical Access Security

During our audit we noted that the County does not formally review access levels on a regular basis for certain systems and /or applications. Those include Active Directory (Network), the Land Record System (application), and Social Services (application). We recommend that access rights be reviewed at least once a year by management for all systems and applications to ensure users do not have access beyond their job responsibilities and segregation of duties is maintained.

In reviewing the password security settings of the Cayenta application we noted that the number of failed login attempts is set to zero. Strong password controls would lock users out of the Cayenta system after five failed login attempts. We recommend this security setting be adjusted accordingly.

Management's Response

The appropriate County staff will work with the City County Information Technology Commission to determine how to formally review access levels for the applications listed.

PRIOR YEAR POINTS

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.

Current Year Status

This comment is still valid.

DEPARTMENTAL CONTROLS (cont.)

Management's Response

One issue that is listed in the 2012 Letter states that, "the lack of segregation of duties that may occur at departments or locations that handle cash or do miscellaneous billing."

Evaluating and documenting the internal control procedures in each department will assist in providing management the opportunity to create 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.

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. When we first reported this to you in 2010, the Employee Benefits Insurance fund had $10,034,985 of retained earnings at year end, which was 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 had retained earnings in the amount of $6,259,471 at December 31, 2010. This represented approximately ten years' worth of what the average ($606,735) expenses were for this fund over the previous five years. Based on the significant retained earnings balances at that time, we recommended the County determine if the rates being charged to other funds was appropriate or if they should be adjusted to more accurately represent the cost of providing these services.

Current Year Status

The Property Casualty Insurance fund had an increase in its net position of $628,408 for 2012 and the net position is now $7,498,831. The Employee Benefits Insurance fund had a decrease in its net position of $2,059,500 and the net position is now $ 8,102,812. This comment is still valid.

Management's 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. In 2013, the County applied over $1,637,000 of its Employee Benefits Retained Earning to offset health insurance premiums and fully fund the County's HRA for the health plan. The County applied over $81,000 to offset dental premiums and $124,000 in Worker's Compensation reserves to offset Worker's compensation premiums.

For 2013, the County allocated reserves to cover a portion of the increase in property and casualty insurance and will continue to use reserves when appropriate to offset increases in premiums in the future.

Decentralized Activities – Parks

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.

Current Year Status

A majority of the collection amounts received by the Parks Department are paid by the City of Wausau. These are now being paid directly to the County Treasurer and are no longer routed through the Parks Department. In addition, the preparation of invoices, collections of payments, daily reconciliations, and the independent review of these processes have all been segregated. The cash box at Nine Mile recreation continues to be brought home each night and we continue to encourage the County to determine if this is the best available option to safe guarding these assets. However, the amounts are not material to the General Fund. This comment is resolved.

INFORMATIONAL POINTS

UNITED STATES AUDITING STANDARDS REVISIONS

In an effort to make US generally accepted auditing standards (GAAS) easier to read, understand, and apply, the American Institute of CPAs redrafted all of the auditing sections in the Codification of Statements on Auditing Standards. This is also known as the Clarity Project. The new standards are intended to more clearly specify the objectives of the auditor and the requirements with which the auditor must comply when conducting an audit in accordance with GAAS.

Generally speaking, the Clarity Project was not intended to change what auditors actually do. However, there were several areas that resulted in changes to audit procedures. The following outlines some of the changes / areas of emphasis:

- Consideration of Laws and Regulations – The clarified standards require auditors to perform procedures to identify instances of noncompliance with those laws and regulations that may have a material effect on the financial statements, including the inspection of correspondence with relevant licensing or regulatory authorities.

- Communicating Internal Control Related Matters – The clarified standards require auditors to include an explanation of the potential effects of significant deficiencies and material weaknesses identified and communicated to those charged with governance.

- Group Audits – AU-C section 600 (Group Audits) is significantly broader in scope than the previous standard, which focused primarily on the involvement of "other" auditors. It establishes new terms such as "group" and "component". A group includes all the components whose financial information is included in the group financial statements. A component is an entity or business activity that is required to be included in the group financial statements. Examples include: component units, departments with separate financial reporting systems, and joint ventures with an equity interest. A Group Audit can apply whether or not auditors are from different firms, different offices, or teams within the same firm; or even if it is the same team performing the audits of the group and all components.

- A significant change under AU-C section 600 is in the area of subsequent events identification. The group auditor must perform procedures to identify subsequent events between the date of the component auditor's report and the date of the group auditor's report, which often can cover a significant time period. Such procedures may involve group management and the various components, including:

> Obtaining an understanding of any procedures that group management has established to ensure that subsequent events are identified

> Reading available interim financial information of the component and making inquiries of group management

> Inquiring of group management regarding currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position of the group, or results of operations for items that represent subsequent events

- Auditors' Reports – The Auditors' Report will now include the use of headings, expanded discussions of management's responsibility for the financial reporting process, and the introduction of two new terms: *emphasis-of-matter* and *other-matter* paragraphs.

These changes became effective for the year ending December 31, 2012 and subsequent years.

GASB Statement No. 61: The Financial Reporting Entity: Omnibus

As we reported to you last year, The Governmental Accounting Standards Board (GASB) has issued Statement No. 61, which changed governmental financial reporting for component units. These changes will affect your financial statements for the year ending December 31, 2013, primarily the government-wide financial statements, and possibly the fund financial statements.

Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations in which the primary government did not appoint a majority of the organization's board, but were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship now would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units; but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the criteria to be considered in determining whether the organization is to be reported as a blended or discretely presented component unit, as discussed below.

Statement No. 61 amends the criteria for reporting component units as if they are part of the primary government (that is, blending) or separately (that is, discretely) presented. Component units should now be reported as part of the primary government (blended) if they meet any of the following circumstances:

- The governing bodies of both entities are substantially the same and there is a financial benefit or burden relationship, or management of the primary government has operational responsibility for the component unit
- The component unit provides services entirely, or almost entirely, to or that benefit the primary government
- The component unit's total debt outstanding is expected to be repaid entirely, or almost entirely, with resources of the primary government

The blending provisions are also amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. This means that if the component unit has multiple fund types within its report, these funds should be reported within the same fund types of the primary government; except for the component unit's general fund, which should be reported as a special revenue fund. Finally, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. Component units should be consolidated into the single column presentation with condensed combining information presented in the notes to the financial statements.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit.

We are available to discuss these changes and the impact on your financial statements.

INFORMATIONAL POINTS (cont.)

GASB STATEMENT NO. 65: ITEMS PREVIOUSLY REPORTED AS ASSETS AND LIABILITIES

Government Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities* will result in a reclassification of some financial statement line items on the Statement of Net Position and Balance Sheet of governments. The new financial statement categories of deferred outflows of resources and deferred inflows of resources will become more commonly used upon implementation of this standard. In addition to reclassifications to these new categories, the standard will also result in a change in the accounting treatment for certain items, including debt issuance costs. This standard is effective for periods beginning after December 15, 2012, and was intended to complement Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Some of the most significant changes of this standard that will impact many governments include:

- Debt issuance costs previously amortized will now be expensed in the period incurred
- Losses on refunding of debt will now be classified as a deferred outflow of resources, and consistent with the change noted previously, the formula for calculating the loss has been adjusted to exclude debt issuance costs (prospectively)
- The terminology of *deferred revenue* is no longer permitted to be used. In addition, the items previously recorded as deferred revenue will need to be analyzed to determine if they now will be presented as a deferred inflow of resources or a liability
- The major fund determination formula has been updated to include the new categories

We are available to discuss these changes and the impact on your financial statements.

GASB STATEMENT NO. 68: ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, which will change the accounting and financial reporting requirements for state and local governments that provide their employees with pensions. This Statement replaces the requirements of GASB Statement Nos. 27 and 50 as they relate to pensions that are provided through pension plans administered as trusts, or equivalent arrangements that meet certain criteria. These changes will affect your financial statements for the year ended December 31, 2015.

This Statement applies specifically to governments that provide their employees with pensions through pension plans in which a government's contributions to the trust used to administer a pension plan are (1) irrevocable, (2) restricted to paying pension benefits, and (3) beyond the reach of creditors.

Government employers that provide their employees with a defined benefit pension are classified in one of the following categories for this Statement:

- Single employer – is an employer whose employees are provided with a defined benefit pension through a single employer pension plan
- Agent employer – is an employer whose employees are provided with a defined benefit pension through an agent multiple employer pension plan
- Cost-sharing employer – is an employer whose employees are provided with a defined benefit pension through a cost-sharing multiple employer pension plan

Under the new standards, in financial statements prepared using the economic resources measurement focus (accrual basis of accounting), the single or agent employer is required to recognize a liability equal to the net pension liability. The net pension liability is defined as the present value of projected benefit payments to be provided through the pension plan, to current and inactive employees, that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's net position. A cost-sharing employer is required to recognize its proportionate share of the net pension liability of the Wisconsin Retirement System.

The new Statement contains requirements related to the actuarial cost method and certain other assumptions used in the preparation of an actuarial valuation. The Statement also requires that an actuarial valuation of the total pension liability be performed at least every two years, with more frequent valuations encouraged. In addition, this Statement also requires disclosing certain information in the notes to the financial statements, as well as presenting certain required supplementary information (RSI) for the ten most recent fiscal years.

For government employers that provide their employees with a defined contribution pension, the new standards generally carry forward the existing financial reporting requirements.

We are available to further discuss these changes and the impact on your financial statements.

CUSTODIAL CREDIT

Governmental Accounting Standards Board (GASB) Statement No. 40 requires disclosures about deposits and investments. One of the main purposes of GASB Statement No. 40 is to indicate to users of financial statements the custodial risks involved with an entity's deposits and investments. These disclosures are included in the notes to your financial statements.

With regard to deposits at banks, the FDIC coverage has changed once again. On January 1, 2013, the temporary unlimited coverage for non-interest bearing transaction accounts expired. The rules now also distinguish between in-state and out-of-state accounts. Here are the new rules.

- In-state accounts (deposits are held in an institution in the same state where the government is located)

    1) Up to $250,000 for the combined amount of all time (CDs) and savings deposits (includes NOW accounts and money market deposit accounts)
    2) Up to $250,000 for all demand deposit accounts (defined as "deposits payable on demand and for which the depository institution does not reserve the right to require advanced notice of withdrawal")

- Out-of-state accounts (deposits are held in an institution outside of the state where the government is located)

    1) Up to $250,000 for the combined total of all deposit accounts

These rules are in effect as of January 1, 2013. You will need to consider whether the new rules affect your deposit investment policies or practices.

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

BAKER TILLY

Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
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bakertilly.com

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

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of Marathon County for the year ended December 31, 2012 and have issued our report thereon dated June 28, 2013. This letter presents communications required by our professional standards.

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS, 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 will also consider 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.

We will issue a separate document which contains the results of our audit procedures to comply with OMB Circular A-133 and the State Single Audit Guidelines.

To the Marathon County Board of Supervisors and the
Finance and Property Committee and Management
Marathon County

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 our letter about planning matters dated June 28, 2012 and our meeting with you on July 9, 2012.

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 I to the financial statements. As described in Note I.B. to the financial statements, the County changed accounting policies related to deferred outflows of resources, deferred inflows of resources, and net position by adopting the provisions of GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, in 2012. 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 engineering estimates of closure and post closure costs.
2. Management's estimate of the self-insured dental and worker's compensation claim liability is based on annual actuarial evaluations of the individual employee benefits programs.
3. Management's estimate of the Other Postemployee Benefits (OPEBs) liability is based upon information provided to actuaries contracted with by the County.
4. Management's estimate of depreciation expense is based upon estimated useful lives of the related capital asset.

We evaluated the key factors and assumptions used to develop all of these estimates in determining that they are 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.

Difficulties Encountered in Performing the Audit

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

To the Marathon County Board of Supervisors and the
Finance and Property Committee and Management
Marathon County

Corrected and Uncorrected Misstatements

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.

In the prior year, $97,844 was not allocated to the business-type activities from the GASB No. 34 conversion entries eliminating the Employee Benefits internal service fund. For the current year, $466,945 was not eliminated. This causes the governmental activities change in net position to be understated and the business-type activities change in net position to be overstated by $564,789. The governmental activities expenses are overstated by $564,789 and the business-type activities are understated by $564,789.

The County has an equity interest in the City-County Technology Commission in the amount of $329,857 that has not been recorded. This understates governmental activities assets and net position by this same amount.

Management has determined that the effect of this item is immaterial to the financial statements taken as a whole.

The following is a summary of material financial statement misstatements (audit adjustments):

	Amount
Adjust landfill liability	$ 819,567
Adjust contributed capital	208,578
Adjust capitalized interest	81,576

In addition, we prepared GASB No. 34 conversion entries which are summarized in the “Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position” and the “Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities” in the financial statements

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 follows this required communication.

To the Marathon County Board of Supervisors and the
Finance and Property Committee and Management
Marathon County

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 Marathon County for the year ended December 31, 2012, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the County in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, and provided no services to the County other than audit services provided in connection with the audit of the current year's financial statements and nonaudit services which in our judgment do not impair our independence.

- Financial statement preparation
- Adjusting journal entries
- Tax 16 preparation

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

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.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the County Board, finance committee and management and is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
June 28, 2013

MANAGEMENT REPRESENTATIONS

MARATHON
COUNTY

June 28, 2013

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

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of Marathon County as of December 31, 2012 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 over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

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

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.

2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions we used in making accounting estimates are reasonable.

Finance Department
500 Forest Street • Wausau, Wisconsin 54403-5568
Phone 715-261-1170 • Marathon County Web Page: http://www.co.marathon.wi.us

6. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. 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.

7. We believe the effects of the uncorrected financial statement misstatements described here are immaterial, both individually and in the aggregate, to the basic financial statements taken as a whole. In the prior year, $97,844 was not allocated to the business-type activities from the GASB No. 34 conversion entries eliminating the Employee Benefits internal service fund. For the current year, $466,945 was not eliminated. This causes the governmental activities change in net assets to be understated and the business-type activities change in net assets to be overstated by $564,789. The governmental activities expenses are overstated by $564,789 and the business-type activities are understated by $564,789. Also, the county's equity interest in the City-County Technology Commission in the amount of $329,857 has not been recorded. This causes the governmental activities assets and net position to be understated by this same amount. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.

8. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.

9. Guarantees, whether written or oral, under which the County is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

10. We have provided you with:

    a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
    b. Additional information that you have requested from us for the purpose of the audit.
    c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
    d. Minutes of the meetings of County Board or summaries of actions of recent meetings for which minutes have not yet been prepared.

11. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal and state awards.

12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

13. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:

    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.

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

15. There are no known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

16. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.

17. There are no known related parties or related party relationships and transactions of which we are aware.

Other

18. We have made available to you all financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.

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

20. We have a process to track the status of audit findings and recommendations.

21. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

22. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.

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

24. We are responsible for compliance with federal, state, and local 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 federal, state, and local 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 or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

25. There are no:

    a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting and amending budgets), provisions of contracts and grant agreements, 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. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.

    c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.

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

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

26. 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. Financial statement preparation
    b. Adjusting journal entries
    c. Tax 16 preparation

    None of these non attest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

27. 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.

28. Marathon County has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.

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

30. The financial statements include all component units and properly disclose all joint ventures and other related organizations.

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

32. 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.

33. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.

34. Marathon County has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.

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

36. 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.

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

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

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

40. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized.

41. We have appropriately disclosed Marathon County's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding how restricted and unrestricted fund balance is used when an expenditure is incurred for which both restricted and unrestricted fund balance is available, including the spending hierarchy for committed, assigned, and unassigned amounts.

42. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

43. With respect to the combining and individual fund financial statements):

   a. We acknowledge our responsibility for presenting the combining and individual fund financial statements) in accordance with accounting principles generally accepted in the United States of America, and we believe the combining and individual fund financial statements), including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the combining and individual fund financial statements) have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

   b. If the combining and individual fund financial statements) is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

44. We assume responsibility for, and agree with, the findings of specialists in evaluating the incurred but not reported liability, the other post-employment benefits liability, and the closure and post-closure 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.

45. With respect to federal and state award programs:

   a. We are responsible for understanding and complying with 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, State Single Audit Guidelines,* including requirements relating to preparation of the schedule of expenditures of federal and state awards (SEFSA).

   b. We have prepared the SEFSA in accordance with OMB Circular A-133 and the State Single Audit Guidelines, and have identified and disclosed in the schedule expenditures made during the audit period for all awards provided by federal and state 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 direct assistance.

   c. We acknowledge our responsibility for presenting the SEFSA in accordance with the requirements of OMB Circular A-133 §310.b and the State Single Audit Guidelines, and we believe the SEFSA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b and the *State Single Audit Guidelines.* The methods of measurement and presentation of the SEFSA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFSA.

d. If the SEFSA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFSA no later than the date we issue the SEFSA and the auditors' report thereon.

e. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and the *State Single Audit Guidelines*.

f. We are responsible for understanding and complying with, and have complied with 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.

g. 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 administering 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 over compliance or other factors 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.

h. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal or state agencies or pass-through entities relevant to the programs and related activities.

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

j. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), 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.

k. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.

l. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation agreements, and internal or external monitoring that directly relate to the objectives of the compliance audit, if any, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.

m. 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*.

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

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

p. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.

q. We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.

r. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance) have occurred subsequent to the date as of which compliance was audited.

s. 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.

t. 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.

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

v. 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.

w. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.

x. We are responsible for preparing and implementing a corrective action plan for each audit finding.

Sincerely,

Marathon County

Signed: ______________________________
Brad Karger, County Administrator

Signed: ______________________________
Kristi Kordus, Finance Director