MARATHON COUNTY

Wausau, Wisconsin

COMMUNICATION TO THOSE CHARGED
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2017

MARATHON COUNTY

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

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, 2017, 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 certain deficiencies in internal control 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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 Over Financial Reporting
> Decentralized Activities
> Treasurer's Office

Marathon County's written response to the significant deficiencies 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, 2018

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 an analysis of the year-end financial reporting process and preparation of your financial statements.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Properly designed systems of internal control provide your organization with the ability to process and record monthly and year-end transactions and annual financial reports.

Our audit includes a review and evaluation of the County's internal controls relating to financial reporting. Common attributes of a properly designed system of internal control for financial reporting are as follows:

> There is adequate staffing to prepare financial reports throughout the year and at year-end.
> Misstatements are identified and corrected during the normal course of duties.
> Complete and accurate financial statements including footnotes are prepared.
> Complete and accurate schedule of expenditures of federal and state awards is prepared.
> Financial reports are reviewed for completeness and accuracy.

Our evaluation of the internal controls over financial reporting has identified control deficiencies that are considered significant deficiencies surrounding the preparation of financial statements and footnotes, adjusting journal entries identified by the auditors, and an independent review of financial reports.

Management has not prepared financial statements that are in conformity with generally accepted accounting principles and misstatements in the general ledger were identified during the audit.

This level of internal control over financial reporting can be a difficult task for governments that operate with only enough staff to process monthly transactions and reports, and often engage their auditors to propose certain year-end audit entries and prepare the financial statements.

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.

The Finance Department staff does attend GFOA and other governmental accounting training and maintains the knowledge and ability to complete the financial statements in house. If in the future additional resources become available, the County will review the final financial transactions and entries and develop the comprehensive annual financial report in house.

DECENTRALIZED ACTIVITIES

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. The same individual responsible for invoicing also collects payments, prepares the deposit, and delivers the funds to the bank which results in a weakness over segregation of duties. Deposited amounts are in excess of $100,000 per month. We recommend the County and CWA determine if payments could be sent directly to the County Treasurer's office for deposit. If this is not possible, the collections at CWA should be deposited on a more frequent basis and controls should be established so that airport funds are adequately safeguarded.

Management's Response

The County changed its Accounts Receivable billing practices as of the end of 2015. CWA is a distant location and was included on the County's network in late 2016. The Treasurer's office is currently working with CWA to have the staff at CWA enter invoices in Cayenta with the remittance address being the County Treasurer's office at the Courthouse. For airlines, the County Treasurer's office and CWA are working on having the major airlines make payments via Electronic Funds Transfer (EFT).

Currently, we are completing the final paperwork to have United Airlines payments be received via EFT. CWA has contacted Delta, Air Canada and American Airlines to set up EFT as well. Several other airline payments are being processed in this manner. This will eliminate the need for the major airlines to mail payments to CWA.

Most of the parking fees are paid by credit card and are processed through the Treasurer's office. The parking payments that come directly to CWA are receipted into the County's cash receipting system at least twice a month.

LANDFILL

The County landfill receives payments on a regular basis from commercial haulers. Payments are sent directly to the landfill office where they are posted into their Wasteworks system and then brought to the bank. The same individual is able to create the invoice, post the payment, prepare and deliver the deposit. We recommend the County and the solid waste department determine if payments could be sent directly to the County Treasurer's department. If this is not possible, then controls should be established so that solid waste collections are adequately safeguarded.

Management's Response

The County Treasurer and Finance Department staff met with the staff of the Solid Waste Department on June 13, 2018 to review their cash receipting procedures and initiate changes to adequately safeguard their collections.

Several of the key elements of this change will be to:

- Most of the payments in the Wasteworks system have matching invoices in the Cayenta system but at this time the payments are sent back to the landfill and applied against the invoice and the funds are deposited at Banner Bank
- Run Landfill invoicing out of Cayenta and Wasteworks with the remittance address listed as the County Treasurer's office
- Receipt invoice payments into Cayenta first and deposit as part of the Treasurer's office bank deposit into US Bank
- Move credit card payments from current vendor, Global Payments, to a vendor that works with the County's bank US Bank

DECENTRALIZED ACTIVITIES (cont.)

LANDFILL (cont.)

Management's Response (cont.)

- Eliminate the use of the separate Banner Bank account by the Landfill department
- Receipt over the counter payments at the Landfill into Wasteworks and deposit at least weekly with the County Treasurer's office and into the County's US Bank account.
- The landfill department will look for ways to segregate some of the duties that are currently assigned to one position.

The County Treasurer and Finance Department help to continue to work with the Landfill staff to develop a plan to facilitate this change.

TREASURER'S OFFICE

These comments were reported in the prior year:

The County Treasurer's office has multiple financial responsibilities as defined within Wisconsin State Statutes. Amongst those responsibilities is the collection of delinquent property or real estate taxes as well as performing settlements with the other taxing jurisdictions that collect currently owed taxes. With the significant amount of funds being collected for taxes as well as the importance of correctly settling with the other jurisdictions, it is critical that good internal controls exist throughout the year regarding these responsibilities. We reviewed the procedures and controls in the Treasurer's office and noted the following areas where controls should be improved:

- The County utilizes a tax collection software system called Land Records. This system accounts for all of the delinquent taxes owed to the County, as well as penalties and interest accrued. Each day, amounts collected by the Treasurer's office for the various categories are posted to accounts. The subsequent day, the financial activity is provided to the Finance department for posting to Cayenta, the County's general ledger system. We noted several control deficiencies related to this process, including:

    - The amounts reported for tax certificates by tax year in the Land Records system did not agree or reconcile to the amounts reported in Cayenta for several of the years reported. The most significant difference was a $250,549 amount when analyzing the 2013 tax year. Amounts reported in the Land Records system should agree to those reported in Cayenta at all times during the year. Any differences should be investigated in a timely manner and resolved. This control should be established between the County Treasurer's office as the collecting agent, and the Finance Department since they are responsible for reporting.

    - The Land Records system is not able to produce historical reports, jeopardizing the County's ability to go back in time to resolve differences. We recommend the County work with its software vendor to determine if there is a way for these reports to be generated.

    - Transactions posted to the Land Records system are not interfaced with Cayenta so the previous day's activity must be posted into Cayenta by manual journal entries. The need to manually post entries compared to interfacing systems results in weakened controls over the ability to accurately report and safeguard County tax collections. We recommend the County work with its vendor to determine if interfacing these two system is possible.

- Users of the Land Records system periodically encounter the need to adjust (change) amounts previously posted. These adjustments are not being independently reviewed. We recommend that the County work with the vendor to determine if a report can be generated whereby a review of all adjustments could be performed by someone independent of posting journal entries.

We are available to assist the County with any of these recommendations.

Current Year Status

Our follow-up testing for these areas noted the following:

> For issues related to the Land Records system, the discrepancy between this system and the Cayenta general ledger still exists. However, 2016 and 2017 activity did reconcile.

> Adjustments to the Land Records system are periodically being reviewed. However, this review is not being documented.

> All other comments related to this system still exist.

Management's Response

The Finance Department will work with the Treasurer's office and City County Information Technology Commission to develop a set of procedures to balance the Land Records system with Cayenta. The two systems balanced for past years' taxes and do balance for 2016 and 2017. The land records application cannot rerun reports from prior dates. The Land Records system was programmed in house so there is no vendor to contact to make changes in the programming at this point.

There are two items to note on the process of recording receipts from the land records system to Cayenta. Each day amounts collected by the Treasurer's office for various categories are posted to the accounts (land records). The subsequent day, the financial activity is posted through Cayenta cash receipts by the County Treasurer's office. This does provide a problem for timing and possible errors due to double receipting. The Land Records system is not interfaced with Cayenta so the previous day's activity must be posted by cash receipt at the Treasurer's office not through manual journal entries.

Lastly, the current Land Records system is old (26 years old) and many of the requested improvements that you suggested are not possible on the system without major programming changes. In 2017, the County went out for RFP to purchase a new Land Records system with many of the suggestions that you have listed and they will be a requirement in the new system. The RFP responses have been evaluated and a new land records software, Ascent from Transcendent Technologies, has been selected. Implementation of the new system is ongoing at this time with a "go live" date of September 2018. We will update the procedures for reconciling the new land records system to Cayenta. The new system's additional functionality should eliminate many of the concerns listed in this letter.

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 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 and 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.

e. (cont.)

Our audit will be performed in accordance with U.S. generally accepted auditing standards, *Government Auditing Standards*, OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (*Uniform Guidance), 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 *Government Auditing Standards,* the Uniform Guidance 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 the Uniform Guidance and the *State Single Audit Guidelines* 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, 2018 and for the year then ended completed by WIPFLI, LLP as well as in future years. 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?

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

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 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

PRIOR YEAR POINTS

INFORMATION TECHNOLOGY

As part of our 2017 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 there were several shared system accounts with access to the Cayenta application. There is a risk that accountability cannot be established within Cayenta and that unauthorized users may have access to the financial application. Marathon County should perform a review of accounts with access to Cayenta and ensure that all users have a unique ID. Any generic, shared, temporary, and system accounts should be removed or disabled.

We noted that passwords for the land records application does not require updating or the use of complex characters. The County should also consider changing settings related to lockouts to three valid attempts for both network and all applications to be in line with best practice standards.

Data Backup and Recovery

The County performs backups for the Cayenta application on a regular basis but these backups are not being tested on a proactive basis. We recommend a formal process be put in place to complete backup restores on a periodic basis to ensure that the backups are functioning as intended.

Backups are maintained offsite for two years after either a four or six week period. The County is, therefore, exposed to a higher risk of lost data related to County data during the four to six week period prior to storage and after the two year period of offsite storage is completed. There are a variety of options available for backing up data offsite. This could include cloud technologies or backups to alternate locations that are real-time (rather than backing up to a disk and moving the disk). We recommend that the County reduce the amount of time backups are kept onsite.

Current Year Status

These comments are still valid.

Management's Response

<u>Logical and Physical Access Security</u>
The County has generic IDs in Cayenta for CPZ, Sheriff and the County Clerk. These logins are only used for cash receipting and reporting. The logins have no additional access to Cayenta. We cannot have logins for each person to receipt each transaction; that process would be extremely cumbersome. There are mitigating controls such as the drawers are balanced daily and the deposit is verified in the Treasurer's office.

INFORMATION TECHNOLOGY (cont.)

Management's Response (cont.)

The Land Records systems was created "in-house" and is very old (See note above on Land Records) and as we implement the new land records systems, the issue with passwords should be fixed. The Active Directory system has complex passwords and the mitigating control is that you cannot log in to access the current land records system without first accessing Active Directory.

Data Backup and Recovery
Our strategy for testing Cayenta restores is using the same type of back up process as we do for a routine backup to restore test environments. We will look to formalize this process and do an annual test.

For Cayenta, there are two nightly disk to disk copies. One is on-site and the other is off-site at the Courthouse. Both of these have a 28 day rotation. In addition, there is a backup to tape that happens nightly and the tape is sent off-site each month. We have 2 years of month end tapes off site. An additional 5 years are in the vault at City Hall. We will review the options that we have available to backup data and hold offsite further reducing our exposure to losing data.

DECENTRALIZED ACTIVITIES

Clerk of Courts

Due to the higher risk factors of decentralized bank accounts that some county departments retain, County Finance requests copies of bank reconciliations and statements as a compensating control. The Clerk of Courts has not been providing these documents to the Finance department since August of 2015. This is likely attributable to the Clerk of Courts not being able to reconcile this account. During the course of the audit during April of 2017, the Clerk of Courts was able to reconcile through April of 2016. While the amount of the unreconciled difference is not significant, it does change each month which represents more risk than a known, unchanged amount from month to month.

We recommend the Clerk of Courts continue to reconcile each month's activity until all reconciling items are resolved. These reconciliations should be independently reviewed for accuracy and completeness and this review should be documented. In addition, the Clerk of Courts should provide these reconciliations and the supporting documents and bank statements to Finance or review on a regular basis.

Current Year Status

The Clerk of Courts checking account was provided to the Finance Department and was reconciled as of December 31, 2017. This comment is resolved.

County Library

The County Library department also holds a decentralized bank account that is not being submitted to County Finance for review along with supporting bank statements and other documentation. We recommend this occur on a regular basis as a compensating control over these funds.

Current Year Status

This account is now closed and this comment is resolved.

PRIOR YEAR POINTS (cont.)

DECENTRALIZED CASH COLLECTIONS

Many governments collect cash at numerous decentralized locations that are separate from the primary system of accounting procedures and controls. The opportunity for theft is often higher at those locations because one person is frequently involved in most, if not all, aspects of a transaction (i.e. lack of segregation of duties).

Examples in your government that fit this situation include:

Clerk of Courts	Solid Waste
Parks Department	Airport
Register of Deeds	Health Department
Sheriff's Department	Highway

Management is responsible for designing and implementing controls and procedures to detect and prevent fraud. As a result, we recommend that management review its decentralized cash collection procedures and controls on a periodic basis and make changes as necessary to strengthen the internal control environment. Reviewing the adequacy of the controls is a responsibility of the governing body.

Below are example procedures and controls to help mitigate the risk of loss at decentralized cash collection points:

- Implement a centralized receipting process with adequate segregation of duties
- For cash collections, ensure pre-numbered receipts are being used and all receipts in the sequence are being reviewed by someone other than the person receipting the cash and receipts tie to deposits
- Perform surprise procedures at decentralized locations (cash counts, walkthrough of processes, etc.)
- Require regular cash deposits to minimize collections on-hand
- Limit the number of separate bank accounts
- Segregate duties as much as possible – the person receipting cash should be separate from the person preparing deposits and the person reconciling bank accounts should be separate from the cash collection activity
- Perform month-to-month or year-to-year comparisons to look for unusual changes in collections
- If collecting from a drop box site, consider sending two people to collect the funds, especially during peak times

As always, the cost of controls and staffing must be weighed against the benefits of safeguarding your assets.

Current Year Status

These comments are still valid.

PRIOR YEAR POINTS (cont.)

DECENTRALIZED CASH COLLECTIONS (cont.)

Management's Response

The County will look at ways to develop more internal controls over cash collections. In many of the departments that you listed, there are separate accounting, case management or cash receipting systems that function specifically for the department's individual requirements. The County's main cash collection system will not meet the needs of those specific departments. In the rest of the departments, the departments balance the drawers on a daily basis, send their invoice payments to the Treasurer's office and make timely deposits. We will continue to review the procedures associated with cash collections to strengthen internal controls.

INFORMATIONAL POINTS

GOVERNMENT FRAUD PREVENTION AND DETECTION

When it comes to preventing and detecting fraud in government, being proactive is critical. In fact, government is the second most likely industry to be impacted by fraud. According to the audit standards, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. To get started, your government should conduct a fraud risk assessment to identify where and how fraud might occur and what individuals may be in a position to commit fraud. Once you've identified your entity's fraud risk areas, the next step is to develop a fraud risk assessment and investigation policy.

As you begin your fraud risk assessment or develop tools to prevent and detect fraud, it is important to keep in mind the following information provided by the Association of Certified Fraud Examiners:

> Misappropriation of assets accounts for 80 percent of fraud

> The primary internal control weaknesses observed are lack of internal controls, lack of management review, override of existing internal controls and poor tone at the top

> A tip is the most effective tool to catch a fraudster followed by management review

> The professional requirements and objectives of a financial audit are different than a forensic audit. Due to the nature of a financial audit, less than 10 percent of frauds have been discovered as a result of a financial audit conducted by an independent accounting firm.

Since your government has not gone through a fraud risk assessment and does not have a plan to prevent and detect fraud, we recommend that this be done and then updated on a regular basis. We are available to assist you with this process.

GOVERNMENT FRAUD PREVENTION AND DETECTION: VENDOR FRAUD

Vendor fraud poses a unique threat to governments. Due to the public and transparent nature of operations, government entities have an increased susceptibility for this type of criminal activity. Since governments publish a significant amount of information online — for example, meeting minutes, which often contain vendor names, contract amounts and project status — it is easier for fraudsters to create falsified documents.

Fraud specialists have noted recent fraud cases where criminals falsified vendor change requests for legitimate vendors, including company addresses and bank account information for Electronic Fund Transfers (EFT). When governments unwittingly process these fraudulent changes, the perpetrators can collect payments on legitimate and approved vendor invoices — while legitimate vendors go unpaid.

GOVERNMENT FRAUD PREVENTION AND DETECTION: VENDOR FRAUD (cont.)

Preventing vendor fraud completely may be impossible; however, governments can go a long way towards protecting themselves by taking appropriate safety and control measures.

Help ensure your vendor transactions are secure and authentic by:

- Performing a risk assessment that focuses on vendor accounts payable activities.
- Periodically revisiting your control activities
- Educate your employees on potential fraud schemes
- Identify which vendors may be high-risk targets.

Our fraud experts are also available to assist with your fraud risk questions, assessments, and programs.

RESOURCES FOR STATE AND LOCAL GOVERNMENT BOARDS

Expectations and accountability are at all-time high and the knowledge required to be an effective board member is substantial. As a benefit to our clients, we have compiled a number of resources dedicated to educating state and local government board members. Go to our Board Governance Resource Center at www.bakertilly.com/board-governance.

The Resource Center includes the following short informative videos:

1. Government financial statements 101
2. Understanding your government's fraud risk
3. Financial ratios and benchmarks
4. Fund balance and other financial policies
5. Benefits of a fraud risk assessment
6. Understanding utility finances

We encourage you to subscribe to our complimentary newsletter "Government Connection" to stay abreast of the latest issues impacting state and local governments. You can do so by clicking on the "subscribe" button and indicating "State and Local Government" as an area of interest on the subscription form. Also, if you or your board members have suggested topics to feature on our Board Governance webpage or Government Connection newsletter, we invite you to submit your ideas in person or online.

GASB UPDATES

The Government Accounting Standard Board (GASB) has been very active in recent years, issuing new standards at a fast pace. Over the next few years, your government will have many new standards to evaluate and implement. Here is the standard likely to impact you the most in the upcoming year:

- GASB 86 provides guidance for accounting for Certain Debt Extinguishment Issues

There were two significant GASB statements issued in 2017. While the implementation dates for these are a few years away, they are anticipated to have significant impacts on many government financial statements:

- GASB 84 improves guidance regarding the identification of Fiduciary Activities and how they should be reported, effective for years ending December 31, 2019
- GASB 87 improves accounting and financial reporting for Leases, effective for years ending December 31, 2020

GASB UPDATES (cont.)

Looking even further ahead, the Technical Agenda, below, outlines significant areas GASB is currently working on:

- Major Projects
  - Financial Reporting Model
  - Revenue and Expense Recognition
- Practice Issues
  - Capitalization of Interest Cost
  - Conduit Debt
  - Debt Disclosures
  - Equity Ownership Issues
  - Implementation Guidance
- Pre-Agenda Research
  - Going Concern
  - Cloud Computing
  - Note Disclosure reexamination
  - Public-Private Partnerships
  - Social Impact Bonds

Through our firm involvement on AICPA committees, Baker Tilly follows these developments closely so that we can help you prepare for the changes as they evolve. This participation also allows us to share with GASB the experiences and perspectives of our clients to potentially influence the direction of future projects.

Full lists of projects, as well as many resources, are available on GASB's website which is located at www.gasb.org.

UPCOMING LEASE STANDARD

In June 2017, the Governmental Accounting Standards Board (GASB) issued new guidance to establish a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This standard is effective for fiscal years ending on or after December 31, 2020. Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognize as inflows of resources or outflow of resources based on the payment provisions of the contract.

Under the new standard a lease is defined as a contract that conveys control of the right to use another entity's nonfinancial asset (underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction. Control is defined by 1) the right to obtain the present service capacity from the use of the underlying asset and 2) the right to determine the nature and manner of use of the underlying asset. Any contract that meets this definition should be accounted for under the lease guidance, unless specifically excluded in this statement. Leases include contracts that, although not explicitly identified as leases, meet the above definition of a lease.

UPCOMING LEASE STANDARD (cont.)

The following are contract exclusions and exceptions from applying lease accounting:

- Intangible assets (mineral rights, patents, software, copyrights)
- Biological assets (including timber, living plants, and living animals)
- Service concession arrangements (See GASB Statement 60)
- Assets financed with outstanding conduit debt unless both the asset and conduit debt are reported by lessor
- Supply contracts (such as power purchase agreements that do not convey control of the right to use the underlying power generating facility)
- Inventory
- Short-term leases - max possible term 12 months or less
- Leases that transfer ownership and do not contain termination options
- Leases of assets that are investments
- Certain regulated leases (e.g., airport-airline agreements)

We recommend the County review this standard and start planning how this will affect your financial reporting. An inventory of all contracts that might meet the definition of a lease should be started. The contract listing should include key terms of the contracts such as:

- Description of contract
- Underlying asset
- Contract term
- Options for extensions and terminations
- Service components, if any
- Dollar amount of lease

In addition, the County should begin to establish a lease policy to address the treatment of common lease types, including a dollar threshold for each lease. We are available to discuss this further and help you develop an action plan.

NEW REPORTING REQUIREMENTS FOR FIDUCIARY ACTIVITIES

In January 2017, the Governmental Accounting Standards Board (GASB) issued new guidance to address how governments report fiduciary activities which is effective for fiscal years ending on or after December 31, 2019. Statement No. 84, *Fiduciary Activities*, supersedes reporting of agency funds and replaces it with a newly coined custodial fund, and requires several additional reporting requirements for fiduciary funds.

Under current guidance, Statement 34 requires that governments report fiduciary activities in fiduciary funds, but that statement does not provide a clear definition of what constitutes a fiduciary activity. GASB sought to reduce inconsistencies in reporting and provide a clear foundation for future reporting.
The new guidance will impact a significant amount of local governments. Many local governments have activities that may be considered fiduciary, including:

- Student activity funds of a school district
- Tax collection funds
- Circuit court fund of a municipality or county
- Jail inmate accounts
- Nursing home patient accounts
- Cemetery trust funds
- Postemployment benefit plans

Under the recently issued Statement 84, governments will need to apply specific criteria to determine if a fiduciary activity exists. The criteria focuses on determining if a government is controlling the assets of the potential fiduciary activity and determining who the beneficiaries are. A few of the major changes that will impact many governments include:

- Pension/OPEB Plans as Fiduciary Component Units: Pension and other postemployment benefit (OPEB) plans will need to be evaluated to determine if they meet the fiduciary component unit criteria.
- Other Fiduciary Activities: There are various other types of assets that a government controls which will need to be evaluated under the new standard. Part of this evaluation will include identification of the beneficiary of the funds, consideration of how the assets are derived and the extent of administrative or direct financial involvement with the assets.

The following is a summary of two significant changes in the reporting requirements:

- The standard requires that governments recognize a liability to the beneficiaries in a fiduciary fund only when an event has occurred that compels the government to disburse fiduciary resources.
- Presentation of additions and deductions on the statement of changes in fiduciary net position for all fiduciary funds, including custodial funds

The time to start assessing your government's fiduciary activities is approaching. Start with reading the new statement and reviewing the non-authoritative flowchart provided by GASB in the appendix of the statement. This will give you an understanding of the new criteria and requirements and help you identify the fiduciary reporting changes that will impact your financial statements.

REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE

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, 2017 and have issued our report thereon dated June 28, 2018. 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, the Uniform Guidance, 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's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (*Uniform Guidance), 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 considered Marathon County's internal control over financial reporting to determine the audit 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 Marathon County's internal control over financial reporting. We will consider the internal control over compliance with types of requirements that could have a direct and material effect on a major federal and major state program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for a major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions is not an objective of our audit. Also, in accordance with the Uniform Guidance and the *State Single Audit Guidelines*, we will examine, on a test basis, evidence about Marathon County's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *State Single Audit Guidelines* that could have a direct and material effect on 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 on compliance, 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 the Uniform Guidance and the *State Single Audit Guidelines.*

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 29, 2017 and our meeting with you on July 10, 2017.

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. No new accounting policies were adopted and the application of existing policies was not changed during the year. 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 insurance claims liability is based upon information provided to the County by its actuaries.
3. The estimate of the net pension liability and the deferred outflows and deferred inflows related to pensions, which impact the reported pension expense, are based upon information provided by the Wisconsin Retirement System.
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 notes to 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.

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, $240,745 was not allocated to the business-type activities from the GASB No. 34 conversion entries eliminating the internal service funds. For the current year, $77,152 was not allocated. 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 $163,593 for the current year. The governmental activities expenses are overstated by $163,593 and the business-type activities are understated by the same amount. For the current year, the general fund assets, revenues, and fund balance are understated by $168,487 related to interest and penalties not accrued.

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

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

	Amount
To adjust airport fund for current portion of long-term debt	$ 890,000

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 auditors’ 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.

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, 2017, 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
- Preparation of auditee sections of data collection form
- Compiled schedule of pledged amounts to the NCHCC Foundation

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

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to the supplementary information, 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.

We were not engaged to report on the other information, which accompanies the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

RESTRICTIONS ON USE

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, 2018

MANAGEMENT REPRESENTATIONS

June 28, 2018

MARATHON COUNTY

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, 2017 and for the year then ended for the purpose of expressing opinions 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, if any, 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 other 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. 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.

8. We believe the effects of the uncorrected financial statement misstatements listed here are immaterial, both individually and in the aggregate, to the basic financial statements as a whole. In the prior year, $240,745 was not allocated to the business-type activities from the GASB No. 34 conversion entries eliminating the internal service funds. For the current year, $77,152 was not allocated. 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 $163,593 for the current year. The governmental activities expenses are overstated by $163,593 and the business-type activities are understated by the same amount. For the current year, the general fund assets, revenues, and fund balance are understated by $168,487 related to interest and penalties not accrued. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.

9. There are no known or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. 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.

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

Information Provided

11. 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 financial records and related data, 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.

12. We have not completed an 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. We have no knowledge of 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. There are no known related parties or related party relationships and transactions of which we are aware.

Other

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

18. We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that you have reported to us.

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

20. 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.

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

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

23. 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, debt contracts, and IRS arbitrage regulations; 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.

24. There are no:

    a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving 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, except those already disclosed in the financial statement, if any.

    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.

25. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 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. Preparation of auditee sections of the data collection form
    d. Tax 16 preparation
    e. Compiled schedule of pledged amounts to the NCHCC Foundation

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

26. 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.

27. 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.

28. 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, if any. Component units have been properly presented as either blended or discrete.

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

30. 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.

31. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.

32. 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.

33. Provisions for uncollectible receivables, if any, have been properly identified and recorded.

34. 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.

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

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

37. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).

38. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.

39. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.

40. Tax-exempt bonds issued have retained their tax-exempt status.

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 which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.

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 supplementary information, (SI):

    a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, 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 SI 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 SI 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 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. We assume responsibility for, and agree with, the information provided by the Wisconsin Retirement System as audited by the Legislative Audit Bureau relating to the net pension asset/liability and related deferred outflows and deferred inflows and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also assume responsibility for the census data that has been reported to the plan.

46. We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as the measurement date in accordance with the requirements of GASB 72 – *Fair Value Measurement*. In addition our disclosures related to fair value measurements are consistent with the objectives outlined in GASB 72. We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the financial statements and believe this information to be reliable and consistent with the requirements.

47. 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's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), *State Single Audit Guidelines,* including requirements relating to preparation of the schedule of expenditures of federal and state awards (SEFSA).

b. We acknowledge our responsibility for presenting the SEFSA in accordance with the requirements of the Uniform Guidance and the *State Single Audit Guidelines,* and we believe the SEFSA, including its form and content, is fairly presented in accordance with the Uniform Guidance 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.

c. 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.

d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance and the *State Single Audit Guidelines* and included in the SEFSA, 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 direct assistance.

e. 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.

f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for 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.

g. 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.

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

i. We have complied with the direct and material compliance requirements including when applicable, those set forth in the OMB 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 direct and material compliance requirements of federal and state awards.

j. 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.

k. 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.

l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in the Uniform Guidance.

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

n. 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.

o. 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.

p. 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.

q. 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 or material weaknesses in internal control over compliance, subsequent to the date as of which compliance was audited.

r. 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.

s. 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.

t. 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 the Uniform Guidance and the *State Single Audit Guidelines*.

u. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditors' reports that identified 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.

v. We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.

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

x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance 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.

y. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.

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

aa. 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.

Sincerely,

Marathon County

Signed: _____

Signed: _____

Signed: _____