

MANAGEMENT COMMUNICATIONS

MONROE COUNTY, WISCONSIN

DECEMBER 31, 2012

MONROE COUNTY, WISCONSIN

December 31, 2012

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To the County Board
Monroe County, Wisconsin

We have completed our audit of the basic financial statements of Monroe County, Wisconsin (the "County") as of and for the year ended December 31, 2012. The County's financial statements, including our report thereon dated July 17, 2013, are presented in a separate audit report document. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards, OMB Circular A-133 and the State Single Audit Guidelines

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, noncompliance with the provisions of laws, regulations, contracts and grants or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on major federal and state programs 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 the 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 the 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 the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters.

Significant Audit Findings

Consideration of Internal Control

In planning and performing our audit of the financial statements of the 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 the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency to be a significant deficiency in internal control:

Finding 2012-01 Preparation of Annual Financial Report

Qualitative Aspects of Accounting Practices

Management is responsible for the 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 the County are described in Note A to the financial statements. The County implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the year ended December 31, 2012. We noted no significant transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

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 included in the financial statements were:

- Closure and post-closure liabilities of the solid waste fund.
- Depreciation on landfill cell development costs based on tonnage disposed of and compaction rates used by management.
- Depreciable life of the capital assets is based upon analysis of the expected useful life of the capital assets.
- Allowance for uncollectible accounts related to nursing home patient accounts.
- Other post-employment benefits liability based on actuarial study.

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The financial statements reflect all accounting adjustments proposed during our audit. The adjustments included various end-of year payable, receivable and reclassification entries. These entries are considered routine in nature and normally do not vary significantly from year to year. Copies of the audit adjustments are available from management.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 17, 2013. The management representation letter follows this communication.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the County's financial statements or a determination of the type of auditor's 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.

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 conducting the audit. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to completing the services as your auditor.

In addition, during our audit, we noted certain other matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. Our comments and recommendations are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these matters in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized in the comments and observations section of this letter.

This communication, which does not affect our report dated July 17, 2013 on the financial statements of the County, is intended solely for the information and use of the County Board, management, and others within the County, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Certified Public Accountants
Green Bay, Wisconsin
July 17, 2013

MONROE COUNTY FINANCE

14345 County Hwy B
Rm 2
Sparta WI 54656

Phone: 608-269- 8707 or 608 269 -8791
Fax: 608- 366- 1809



July 17, 2013

Schenck SC
2200 Riverside Drive
P.O. Box 23819
Green Bay, WI 54305-3819

This representation letter is provided in connection with your audit of the primary government financial statements of Monroe County, Wisconsin (the "County") which comprise the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of December 31, 2012, and the respective changes in the financial position and where applicable, cash flows for the year then ended, and the related notes to the primary government financial statements for the purpose of expressing opinions as to whether the primary government financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items in No. 50 are considered material based on the materiality criteria specified in OMB Circular A-133 and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in 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, as of July 17, 2013, 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 dated October 31, 2012.
2. The primary government financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government 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.

6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America requires 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.
8. We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the County's accounts.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and 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 records, documentation, 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 the County Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. All material transactions have been recorded in the accounting records and are reflected in the financial statements, and the schedules of expenditures of federal awards and state financial assistance.
13. We made an assessment of the risk that the financial statements may be materially misstated as a result of fraud. We have disclosed the results of our assessment as follows:
 - a. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - i. Management,
 - ii. Employees who have significant roles in internal control, or
 - iii. Others where the fraud could have a material effect on the financial statements.

- b. We have no knowledge of any allegations of fraud or suspected fraud affecting the County's financial statements communicated by employees, former employees, regulators, or others.
- 14. We have disclosed to you all 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.
- 15. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 16. We have disclosed to you the identity of the County's related parties and all the related party relationships and transactions of which we are aware.

Government - specific

- 17. 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.
- 18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
- 19. We have a process to track the status of audit findings and recommendations
- 20. We have identified to you any previous 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 the 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 the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts, 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 violations or possible violations of budget ordinances, laws and 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.
- 25. As part of your audit, you assisted with preparation of the financial statements and related notes, state financial report, Public Service Commission annual report, the schedule of expenditures of federal awards, and the schedule of state financial assistance. We have designated an individual with suitable skill, knowledge, or experience to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes, state financial report, the schedule of expenditures of federal awards, and the schedule of state financial assistance.

26. The 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. The County has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
28. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
29. 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.
30. The financial statements properly classify all funds and activities.
31. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 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.
32. 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.
33. Provisions for uncollectible receivables 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 or general revenues.
36. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
37. Deposits and investment securities and derivative transactions are properly classified as to risk and are properly disclosed.
38. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
39. We have appropriately disclosed the 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.
40. 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.
41. We acknowledge our responsibility for presenting the nonmajor fund combining statements in accordance with accounting principles generally accepted in the United States of America, and we believe the supplementary information, 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 supplementary information 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.


42. We agree with the findings of specialists in evaluating the other post-employment benefits and incurred but not reported claims and have adequately considered the qualifications of the specialist 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 an impact on the independence or objectivity of the specialists
43. The fact that the amount of "uncollateralized" deposits or "uninsured, unregistered securities held by the counterparty, or by its trust department or agent but not in the County's name" during the period significantly exceeded the amounts in those categories as of the balance sheet was properly disclosed in the financial statements.
44. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements, have been properly recorded or disclosed in the financial statements.
45. The methods and significant assumptions used to determine fair values of financial instruments are as follows: Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
46. Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the balance sheet date and have been appropriately reduced to their estimated net realizable value.
47. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility.
48. We believe that the actuarial assumptions and methods used to measure pension and OPEB liabilities and costs for financial accounting purposes are appropriate in the circumstances.
49. We do not plan to make frequent amendments to our other post-retirement benefit plans.
50. With respect to federal and state award programs:
 - a. We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the *State Single Audit Guidelines* issued by the Wisconsin Department of Administration including requirements relating to preparation of the schedule of federal awards and the schedule of state financial assistance.
 - b. We have prepared the schedule of expenditures of federal awards in accordance with OMB Circular A-133 and the schedule of state financial assistance in accordance with *State Single Audit Guidelines*, and have identified and disclosed in the schedules of expenditures of federal awards and state financial assistance, expenditures made during the audit period for all awards provided by federal and state agencies in the form of grants, cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

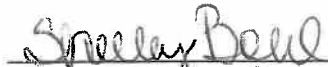
- c. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b and the schedule of state financial assistance (SSFA) in accordance with the requirements of the *State Single Audit Guidelines* and we believe the SEFA and SSFA, including their form and content, are fairly presented in accordance with the Circular and the Guidelines. The methods of measurement and presentation of the SEFA and SSFA 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 SEFA and SSFA.
- d. If the SEFA and SSFA are not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA and SSFA information no later than the date we issue the supplementary information 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 managing our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended.
- h. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relating to each major federal and state 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 all 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 engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, 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 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. There are no such known 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. We have charged costs to federal and state awards in accordance with applicable cost principles.
- u. 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.
- v. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of OMB Circular A-133 and the *State Single Audit Guidelines*.
- w. 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 and have ensured that subrecipients have taken the appropriate and timely corrective action on findings.
- x. We have considered the results of subrecipient audits and have made any necessary adjustments to our books and records.
- y. 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.

- z. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
 - aa. We are responsible for preparing and implementing a corrective action plan for each audit finding.
51. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. 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.

Signed: 
Cathy Schmit, County Administrator

Signed: 
Tina Osterberg, Finance Director

Signed: 
Shelley Bohl, County Clerk

Signed: 
Annette Erickson, County Treasurer

SUMMARY FINANCIAL INFORMATION

1. Governmental Fund Balances

Presented below is a summary of County governmental fund balances on December 31, 2012 and 2011. This information is provided for assessing financial results for 2012 and for indicating resources available at the start of the 2013 budget year.

	12/31/12	12/31/11
General Fund		
Nonspendable		
Prepaid items	\$ 71,799	\$ 332,655
Delinquent property taxes	4,100,629	3,966,127
Long-term cash advance	498,414	1,557,735
Haney reserve	1,000	1,000
Restricted for		
Haney reserve	862	858
Redaction fees	106,666	65,130
Land records fees	104,844	37,188
Dog control	17,997	19,325
Parks	3,010	2,657
CREP program	33,021	30,678
Forestry maintenance - land acquisition	49,255	49,255
Forestry Habelman reforestation	6,728	-
Wildlife habitat	1,151	797
Committed	382,476	319,307
Assigned	116,690	47,191
Unassigned	9,038,840	10,225,240
Total general fund	14,533,382	16,655,143
Special Revenue Funds		
Nonspendable		
Prepaid items - human services	1,981	-
Local history room - Wegner Grotto	50,000	50,000
Restricted for		
Local history room - Wegner Grotto	78,610	58,488
Jail assessment	323,642	325,428
Child support technology purchases	51,329	51,329
DOT Trust	39,784	32,599
Assigned for		
Human services	298,019	300,000
Local history room	215,486	182,877
Total Special Revenue Funds	1,058,851	1,000,721
Debt service fund	85,822	85,761
Capital Projects Fund		
Committed for justice center	5,000,000	-
Assigned for capital improvements	492,790	540,866
Total Capital Projects Fund	5,492,790	540,866
Total Governmental Funds	\$ 21,170,845	\$ 18,282,491

1. Governmental Fund Balances (Continued)

The County's general fund decreased \$2,121,761 due to the following:

- Positive revenue variance totaled \$604,154.
- Overall expenditure variances totaled \$2,430,606 with general government and public safety expenditures under budget by \$1,463,737 and \$560,015, respectively.
- The County Board committed \$5 million to the justice center construction and transferred these resources to the capital projects fund using unassigned general fund resources.

Portions of the general fund balance have been considered to be nonspendable, restricted, committed or assigned as detailed above. Rolling Hills enterprise fund's cash deficit is financed by a general fund cash advance and, since the potential for full repayment in 2012 is not likely, a portion of the general fund balance was shown as nonspendable for the estimated non-current portion of this advance. This balance decreased to \$498,414 as of December 31, 2012.

The County established a minimum cash fund balance policy as summarized below:

General fund cash balance December 31, 2012	\$ 18,106,256
Restricted funds	(355,841)
Committed funds	(5,382,476)
Assigned funds	(765,961)
General fund balance less restricted, committed and assigned funds	<u>\$ 11,601,978</u>
Actual 2012 Total County Adopted Budgeted Expenditures	\$ 45,458,625
Minimum Fund Balance %	(x) 25%
Subtotal	<u>11,364,656</u>
Provision for unexpected volatile operational costs	1,000,000
Provision for future delinquent taxes	2,000,000
Minimum Fund Balance Amount	<u>\$ 14,364,656</u>

The contingency fund balance will lapse into the general fund balance at the end of 2012 as the required fund balance per policy was not attained. The general fund's unassigned balance is \$9,038,840 or approximately 20% of the 2012 adopted budget expenditures of \$45,458,625.

2. Human Services Special Revenue Fund

A comparative summary of the County's human services special revenue fund for the years ending December 31, 2012 and 2011 follows:

	2012	2011
Revenues		
Property taxes	\$ 2,468,283	\$ 2,494,122
Intergovernmental	3,092,260	4,158,322
Charges for services	1,522,092	1,262,696
Total Revenues	<u>7,082,635</u>	<u>7,915,140</u>
Expenditures		
Human services	<u>7,213,056</u>	<u>7,986,001</u>
Excess of Revenues Over (Under) Expenditures	<u>(130,421)</u>	<u>(70,861)</u>
Other Financing Sources (Uses)		
Transfer in	308,200	408,904
Transfer out	(177,779)	(338,043)
Total Other Financing Sources (Uses)	<u>130,421</u>	<u>70,861</u>
Change in Fund Balance	<u>\$ -</u>	<u>\$ -</u>

The human service fund reported revenues and other financing sources over expenditures and other financing uses of \$177,779 which was transferred back to the general fund, resulting in no change in fund balance. The favorable results were due to favorable revenue variances for 2012.

3. Rolling Hills Operating Results

A comparative summary of the County's nursing home operating results for the years ending December 31, 2012 and 2011 follows:

	2012	2011
Operating Revenues		
Charges for services	\$ 6,092,551	\$ 6,493,998
Operating Expenses		
Operation and maintenance	7,796,695	8,212,907
Depreciation	179,148	175,571
Total Operating Expenses	<u>7,975,843</u>	<u>8,388,478</u>
Operating Loss	<u>(1,883,292)</u>	<u>(1,894,480)</u>
Nonoperating Revenues		
Property taxes	763,523	804,551
Intergovernmental aids	997,911	894,725
Total Nonoperating Revenues	<u>1,761,434</u>	<u>1,699,276</u>
Income (Loss) before Transfers	(121,858)	(195,204)
Transfers in	<u>469,008</u>	<u>512,027</u>
Change in Net Position	347,150	316,823
Deficit - January 1	<u>(772,590)</u>	<u>(948,207)</u>
Deficit - December 31	<u>\$ (425,440)</u>	<u>\$ (631,384)</u>

Rolling Hills enterprise fund generated an operating deficit for 2012 of \$121,858 compared to a deficit of \$195,204 for 2011. As of December 31, 2012, the fund reported a deficit of \$425,440. As of December 31, 2012, the County's general fund has advanced cash of \$1,493,830 with \$498,414 being considered long-term. We continue to recommend the County consider a transfer to eliminate this deficit cash position as of December 31, 2012.

4. Solid Waste Operating Results

A comparative summary of the County's solid waste operating results for the years ending December 31, 2012 and 2011 follows:

	2012	2011
Operating Revenues		
Charges for services	<u>\$ 1,722,711</u>	<u>\$ 1,719,835</u>
Operating Expenses		
Operation and maintenance	1,310,242	1,458,515
Depreciation	244,938	252,228
Total Operating Expenses	<u>1,555,180</u>	<u>1,710,743</u>
Operating Income	<u>167,531</u>	<u>9,092</u>
Nonoperating Revenues		
Intergovernmental aids	15,984	149,473
Interest income	6,980	8,541
Total Nonoperating Revenues	<u>22,964</u>	<u>158,014</u>
Income Before Contributions and Transfers	190,495	167,106
Capital contributions from County	30,556	69,920
Transfers out	<u>(299,306)</u>	<u>(298,763)</u>
Change in Net Position	(78,255)	(61,737)
Net Position - January 1	<u>2,977,887</u>	<u>3,039,624</u>
Net Position - December 31	<u>\$ 2,899,632</u>	<u>\$ 2,977,887</u>

At December 31, 2012, the County has cash and investments of \$2,315,011 restricted for closure and long-term care financial responsibilities while unrestricted cash totaled \$941,536, an increase of \$224,303 over the prior year while still transferring \$299,306 for debt service due to positive operating results.

5. Highway Department Operating Results

A comparative summary of the highway department's operating results for the years ending December 31, 2012 and 2011 follows:

	2012	2011
Operating Revenues		
Charges for services	\$ 2,734,704	\$ 3,052,514
Operating Expenses		
Operation and maintenance	5,979,175	5,892,777
Depreciation	680,313	769,283
Total Operating Expenses	<u>6,659,488</u>	<u>6,662,060</u>
Operating Loss	<u>(3,924,784)</u>	<u>(3,609,546)</u>
Nonoperating Revenues		
Property taxes	2,987,004	3,038,028
Intergovernmental aids	998,738	1,109,709
Total Nonoperating Revenues	<u>3,985,742</u>	<u>4,147,737</u>
Income Before Transfers	60,958	538,191
Transfers in	4,093	29,389
Transfers out	<u>-</u>	<u>(67,140)</u>
Change in Net Position	65,051	500,440
Net Position - January 1	<u>8,228,643</u>	<u>7,728,203</u>
Net Position - December 31	<u>\$ 8,293,694</u>	<u>\$ 8,228,643</u>

The highway enterprise fund reported a cash balance of \$1,294,581 as of December 31, 2012 compared to \$1,047,499 for the prior year.

To understand the financial position of this fund, it is important that the County consider road and maintenance projects included in amounts levied by the department but not completed as of December 31, 2012 (similar to amounts designated for subsequent year expenditures for governmental funds) in relation to the fund's cash balance.

COMMENTS AND OBSERVATIONS

GENERAL

1. Worker's Compensation

The County is self-funded for workers compensation claims, funded by charges to County departments. The County recognizes the charges and claim payments through a liability account in the general ledger. The amount in the liability has steadily increased annually and at December 31, 2012, the balance in the liability account is \$2,364,327, compared to \$1,890,947 for the prior year.

Under accounting practices, the general fund should be reporting a liability for the estimated claims incurred but not reported at year end. Because the County is self-funded, a certain amount of excess funds should be retained to account for claim fluctuations; however, this excess balance should be included in net position of the County since claims have not been incurred.

We therefore recommend the County review the present liability and determine if changes should be made to the accounting for these department changes and claim liabilities. The County could reclassify the activity to an internal service fund to better track their liabilities and excess funds held for worker's compensation.

2. GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position and Statement No. 65, Items Previously Reported as Assets and Liabilities

For the year ended December 31, 2012, the County implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These statements are intended to provide users of financial statements with information on how past transactions will impact the County's future financial statements.

The effects on the current year financial statements are to change the classification of "Net Assets" to "Net Position" and to create two additional categories on the Statement of Net Position and the Balance Sheet for deferred outflows and deferred inflows.

A deferred outflow of resources is a consumption of net assets that is applicable to a future reporting period. The County currently has no items that qualify for reporting in this category.

A deferred inflow of resources is an acquisition of net assets that is applicable to a future reporting period. The government-wide and enterprise fund Statements of Net Position and governmental funds Balance Sheet report a deferred inflow for the 2013 property tax levy. Since the governmental fund financial statements use the modified accrual basis of accounting, there is an additional item reported in those balance sheets for unavailable revenues. The unavailable revenue reported is for delinquent property taxes and interest and penalty on delinquent property taxes.

Both of these items have been previously reported in the County's financial statements under "Liabilities", so there is no change to fund balance or net position.

This comment is for informational purposes.

GENERAL (Continued)

3. Responsibility for Development of Department Financial Systems and Opportunities for Centralization of Systems

The County, over the past couple of years, has enhanced overall department financial systems by increasing the involvement of the County's Finance Director who has spent time working with the County's highway and human services departments during 2012. Because our audit involves testing in all County departments, we have noted instances where procedures vary by department. For example, certain departments currently do not use prenumbered receipts which, weakens controls over these collections.

In our opinion, the County could improve the financial management systems of the County by extending the following responsibilities to the Finance Director:

- a. Review and establish standard procedures over receipting and other financial systems for all County departments, including specific procedures being completed by department employees, approve all changes, modifications and enhancements to financial systems.
- b. Approve the design, testing and implementation of any automated financial recordkeeping system being purchased or written for use in all County departments.
- c. Review new grant applications and budgets and establish appropriate grant accounting procedures. Supervise the preparation of claims for reimbursement and other required grant financial reports.
- d. Approve the hiring of and provide training to employees who work with financial systems of the County.

As part of this process, we believe it is important that the County look to centralize certain functions to create efficiencies and improve controls. For example, current practice requires each department maintain separate and distinct systems for processing their invoices. In most departments, one employee is responsible for maintaining the system including monitoring of unpaid invoices. In addition, outstanding invoices are only recorded in the County's general ledger at year end December.

While the systems established at County departments are generally adequate, we noted an instance during our current audit where the solid waste's accounts receivable records were not accurate. Under present procedures, the County's finance department would not be able to make this determination without significant interaction which is not cost effective.

We believe additional controls over invoices can be achieved by implementing a centralized accounts receivable system. Under a centralized invoicing system, department personnel would enter charges directly into a County-wide system; however, the invoice would be produced, mailed and subsequent payments monitored by an employee outside of the department. By having payments mailed directly to the County treasurer, you eliminate department staff transporting these collections while ensuring collections are deposited more timely. The system could be integrated with the County's general ledger thereby allowing the County to establish current accounts receivable detail in the County's general ledger.

We believe other areas, like the purchasing function, could also benefit from centralizing the responsibility for this function.

It is important to recognize that implementation of the above recommendations would take time and, in our opinion, involve a change in the County's current accounting system. While the accounting system currently used by the County is functional as used, enhancements made to ERP systems since the last time the County was looking for a financial system can create additional efficiencies and improve functionality and controls of the County.

GENERAL (Continued)

4. Payroll Processing Controls

One employee currently has access to change employee master files in addition to processing payroll. While there is a review of changes made to the employee master files if a personnel action sheet is produced, there is no verification that a personnel action sheet is prepared for all changes to the employee master files.

Generally, employees processing payroll transactions should not have access to personnel records or be responsible for processing changes to the employee personnel master files in the payroll system. This separation prevents the entering of unauthorized changes to the payroll system by employees who process payroll transactions. In some cases, because of the size of an entity, one employee may be responsible so additional controls to monitor changes can be implemented to mitigate the risk.

In order to increase internal control over payroll transactions we recommend the County evaluate whether these responsibilities could be segregated or if additional controls implemented to mitigate your risk. For example, many new systems can generate an e-mail when changes occur which allows the employee receiving the e-mail to verify the accuracy of the change.

5. IT Risk Assessment

In addition to maintaining key financial information on employees and vendors, certain departments maintain sensitive client information, including client names and other confidential information. As information systems are integrated and data is accessed remotely, it is important that the County perform periodic reviews over your risks related to safeguarding of information and equipment.

We therefore recommend the County consider conducting an IT risk assessment which provides a review of the IT risk profile at the enterprise, process or technology level. Coverage areas include:

- Information security governance, policies, and training
- Disaster recovery and business continuity preparedness
- Third-party IT vendor management
- Physical (building access) and logical (software) security

The IT risk assessment encapsulates security, confidentiality, integrity and availability of your IT systems.

HUMAN SERVICES

1. Status of Prior Year Audit Comment - Expenditure Reconciliations

In our prior year, we reported that the human services department could not provide us with an accurate reconciliation of the County's general ledger to amounts claimed, resulting in an internal control finding in the County's single audit report, in addition to questioned costs for amounts not properly claimed. This finding is being resolved by the State of Wisconsin.

During the current year, the County's finance director with staff from the human services department worked diligently to implement a process to ensure that the reconciliations were completed more timely accurately. While this took a lot of effort from all involved, we believe the enhancements, once implemented, and significantly improved the controls over reconciliations.

2. Department Financial Policies and Procedures

The department is responsible for managing a significant percentage of the County's federal and state financial assistance and completes numerous cost reports, claim forms and other monitoring reports on a monthly, quarterly, and annual basis. In addition, the department is responsible for maintaining purchase of service contracts detailing anticipated contract payments and subsequent review of audit reports. Because of turnover in fiscal staff of the department, we have noted instances during the last two audits where certain procedures may not have been completed timely due to the lack of effective documentation on processes and procedures.

As noted in the prior comment, the County has significantly enhanced the reconciliation process through the involvement of the County's finance director. In the current audit, we observed the following items:

- Purchase of Service Contract Monitoring

The department contracts with a number of local agencies and organizations to provide services to clients. The purchase of service contracts requires most of the agencies to submit financial and compliance audits to the department.

State Single Audit Guidelines require us to inquire of the procedures used and test the County's system for contracting with providers and subsequently reviewing their audit reports. We noted instances where the contract payments exceeded the provider's contract; however, contract addendums were not obtained timely. While our testing indicated that the increased payments were due to changes in levels of service or additional clients, we believe additional controls throughout the year on monitoring payments to contacts would enhance the County's monitoring of these contracts and assist with the subsequent resolution of the audit reports.

- WIMCR Cost Reporting

The County is required to submit cost reports for certain programs funded by Medical Assistance to report costs incurred. During our audit, we noted cost reports were not submitted timely to the State of Wisconsin. The timely submission of these reports is important for the State of Wisconsin to properly claim federal funds.

To enhance controls and ensure future turnover does not impact completion of key financial reporting by the department, we recommend the department consider documenting all procedures performed by County and department personnel related to all financial reporting processes. Including an explanation of how all the information is integrated with the County's financial system and related due dates. In our opinion, an updated, comprehensive manual would serve the department as follows:

- Coordinate financial management processes among County and department staff.
- Establish responsibility at all levels of management and provide necessary authority and controls to permit discharge of those responsibilities.

HUMAN SERVICES (Continued)

2. Department Financial Policies and Procedures (Continued)

- Provide managers and employees a handbook of the approved financial management policies, procedures, forms and reports for guidance, instruction and reporting.
- Simplify administrative and operating practices by standardizing procedures and reporting.
- Provide a flexible way to implement and communicate changes and improvements as they arise. Because grant programs and state systems are continually changing, this would enhance the County's ability to react and account for these changes.
- Provide written instructions for the purpose of developing a thorough understanding of each assignment and to promote improvement of existing practices and compliance with established management policies.

SOLID WASTE

Monitoring Amounts Owed

Solid waste currently maintains a separate billing system for processing solid waste invoices. While the system used by the department is able to generate invoices, a subsidiary detail of amounts owed the County is not maintained. As a result, manual records are maintained to account for invoices issued and collections received. The County recognizes revenue from these invoices when payment is received. At year-end, all outstanding invoices are recorded as accounts receivable when deposited. During our audit, we determined that amounts billed per the system did not agree with the amount recorded in the general ledger. As a result, we did additional tests to identify the variance and determined the variance to be due to improper cutoff, resulting in 2012 revenue of nearly \$98 thousand being recorded as 2013 activity. This error was not identified by the County because the department does not record invoices when invoiced and no verification of revenues per the billing system to revenues per the County general ledger is completed by department personnel.

In our opinion, departments with significant billing systems like the solid waste department should record invoices as revenue when issued and maintain subsidiary systems which are periodically reconciled to the County's general ledger. We believe this would increase internal controls over department invoices because all receivables would be immediately recorded in the general ledger. As a result, departments would be able to reconcile the outstanding invoice balances recorded in their separate billing system to control totals maintained in the County's general ledger. In addition, recording invoices as revenue when issued would provide management with more current financial information because revenues would be recorded in the period services are provided.

We therefore recommend the department automate its accounts receivable system and record the accounts receivable in the County's general ledger when the invoice is issued.