

MANAGEMENT LETTER
LINCOLN COUNTY, WISCONSIN
DECEMBER 31, 2008



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To the County Board
Lincoln County, Wisconsin

We have completed our audit of the basic financial statements of Lincoln County (the "County") for the year ended December 31, 2008. The County's financial statements, including our report thereon dated July 27, 2009, 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, 2008, 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. The results of our procedures did not disclose any deficiency in internal control that we consider to be a material weakness.

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. No new accounting policies were adopted and the application of existing policies was not changed during 2008. 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. We are not aware of any particularly sensitive accounting estimates used by management in the preparation of the financial statements.

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. We proposed no audit entries as the result of our audit.

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 auditor's 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 27, 2009.

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 memorandum attached to this letter.

This communication, which does not affect our report dated July 27, 2009 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 27, 2009

LINCOLN COUNTY, WISCONSIN

December 31, 2008

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the County Board
Lincoln County, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County, Wisconsin, as of and for the year ended December 31, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lincoln County, Wisconsin'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 basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of Lincoln County, Wisconsin in a separate section of this communication.

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

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Certified Public Accountants
Green Bay, Wisconsin
July 27, 2009

SUMMARY FINANCIAL INFORMATION

1. Governmental Fund Balances

Presented below is a summary of the County's governmental fund balances on December 31, 2008, including a comparison to the prior year. This information is provided for assisting management in assessing financial results for 2008 and for indicating financial resources available at the start of the 2009 budget year.

	12/31/2008	12/31/2007
General Fund		
Reserved for:		
Prepaid items	\$ 162,799	\$ 189,770
Insurance deposits	74,558	92,032
Delinquent property taxes	1,086,905	1,004,130
Advance to other funds	401,626	383,453
Grant and program fees	-	94,411
Unreserved		
Designated for:		
Carryover into subsequent year budget	97,869	318,890
Capital improvement projects	1,908,257	2,110,084
Cash flow purposes	5,735,944	5,159,783
Undesignated	372,127	1,534,668
Total General Fund	<u>9,840,085</u>	<u>10,887,221</u>
Special Revenue Funds		
County roads and bridges	(78,088)	(110,255)
Social services	988,856	781,134
Developmental disabilities	50,000	236,467
County health	429,251	410,204
Commission on aging	67,522	64,609
Dog license	1,000	1,000
Community development	67,153	77,220
Emergency medical	360,385	287,984
Jail assessment	28,466	108,531
Total Special Revenue Funds	<u>1,914,545</u>	<u>1,856,894</u>
Debt Service Fund		
Reserved for debt service	<u>65,765</u>	<u>178,915</u>
Capital Project Fund	<u>1,356,493</u>	<u>12,396,877</u>
Total Governmental Fund Balances	<u>\$ 13,176,888</u>	<u>\$ 25,319,907</u>

Designated General Fund

The County has designated general fund balances to indicate that funds are earmarked for specific purposes and currently unavailable to finance general County operations, including \$5,735,944 which has been set aside for working capital needs of the County. Detail of amounts designated can be found on page 49 of the County's financial statements.

Undesignated General Fund

The undesignated general fund balance represents the County's available and unappropriated cash available for any County purpose. The County's undesignated general fund balance totaled \$372,127. The decline of undesignated general fund balance is due primarily to an increase in designated for working capital, lower interest rates resulting in the County's actual interest income being lower than budget by \$331,428 and budgeted sale of County property of \$395,044 not realized in 2009.

Special Revenue Funds

The County's special revenue funds total \$1,914,545 as of December 31, 2008 compared to \$1,856,894 for the prior year. As shown above the County Roads and Bridges fund has a negative fund balance of (\$78,088).

2. Health Self-Insurance Fund

The County has established a self-insurance internal service fund to provide health insurance coverage to County employees and retirees. A summary of 2008 transactions, including a comparison to 2007, is presented below:

	2008	2007
Operating Revenues		
Charges to county departments and retirees	\$ 4,907,198	\$ 4,772,890
Operating Expenses		
Insurance payments and claims	4,521,873	3,803,682
Administrative and fiscal services	591,053	558,666
Total Operating Expenses	5,112,926	4,362,348
Operating Income (Loss)	(205,728)	410,542
Nonoperating Revenues		
Interest revenue	233,686	280,115
Net Income	27,958	690,657
Net Assets - January 1	3,830,938	3,140,281
Net Assets - January 31	\$ 3,858,896	\$ 3,830,938

The self-insurance fund generated an operating loss of \$205,728 compared to an operating income of \$410,542 for the prior year. The County currently has approximately 76% of its annual expenses in net assets at year end and is very good financial condition.

3. Solid Waste Landfill

The County has a Solid Waste Landfill operating as a proprietary fund. A summary of 2008 transactions, including a comparison to 2007, is presented below:

	2008	2007
Revenues		
Public charges for services	\$ 1,201,239	\$ 987,052
Interdepartmental charges for services	-	357
Intergovernmental charges for services	193,361	158,239
Miscellaneous	10,388	13,310
Total Revenues	<u>1,404,988</u>	<u>1,158,958</u>
Expenses		
General services	775,726	713,189
Future closing costs	257,335	244,757
Depreciation and amortization	572,577	416,098
Total Expenditures	<u>1,605,638</u>	<u>1,374,044</u>
Operating Loss	<u>(200,650)</u>	<u>(215,086)</u>
Nonoperating Revenues		
Interest income	173,523	181,986
Grant income	10,000	-
Total Nonoperating Revenues	<u>183,523</u>	<u>181,986</u>
Change in Net Assets	(17,127)	(33,100)
Net Assets - January 1	<u>5,905,105</u>	<u>5,938,205</u>
Net Assets - December 31	<u>\$ 5,887,978</u>	<u>\$ 5,905,105</u>

The Solid Waste Landfill reported an operating loss of \$200,650 and \$215,086 for the years ending December 31, 2008 and 2007, respectively. Current assets and restricted cash total \$6.4 million while liabilities are \$2.8 million.

4. Forestry

The County's forestry operations are accounted for as a proprietary fund. A summary of 2008 transactions, including a comparison to 2007, is presented below:

	2008	2007
Revenues		
Public charges for services	\$ 1,205,093	\$ 995,786
Interdepartmental charges for services	1,750	1,500
Miscellaneous	3,000	-
Total Revenues	<u>1,209,843</u>	<u>997,286</u>
Expenses		
General services	901,206	912,082
Depreciation and amortization	89,437	87,999
Total Expenditures	<u>990,643</u>	<u>1,000,081</u>
Operating Income (Loss)	<u>219,200</u>	<u>(2,795)</u>
Nonoperating Revenues		
Grant income	301,423	268,385
Sale of capital assets	-	19,988
Total Nonoperating Revenues	<u>301,423</u>	<u>288,373</u>
Income before Transfers	520,623	285,578
Transfer out	<u>(139,458)</u>	<u>(393,420)</u>
Change in Net Assets	381,165	(107,842)
Net Assets - January 1	<u>4,198,446</u>	<u>4,306,288</u>
Net Assets - December 31	<u>\$ 4,579,611</u>	<u>\$ 4,198,446</u>

At December 31, 2008, the fund has cash and investments of \$2,143,379. In addition to the transfer of funds to the general fund, the general fund also retains interest earned on Forestry fund cash balances as part of its general fund budget.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

As part of our audit, we reviewed the status of our prior year comments and recommendations. Our review indicates policies and procedures have been implemented to produce the suggested improvements recommended in our 2007 management letter for the comments identified below. Accordingly, we do not feel any further review is necessary. Detail of these comments is available in the 2007 management letter as indicated below:

Comments	Department	2007 Management Letter Page No.
Receipting and Making Deposits	Health Department	6

Included in our 2006 and 2007 management letters were various comments and recommendations for changing County policies and procedures which, if implemented, would occur over a period of time. We have repeated the comments below for additional consideration.

GENERAL COUNTY

Responsibility for Development of Department Financial Systems and Procedures

The County's finance department has continued its progress during 2008 on this recommendation through increased involvement with personnel from various departments. Because we believe this recommendation is important, we have repeated it below for additional discussion:

The County operates in a decentralized manner with County departments and their oversight committees generally responsible for the development of financial systems and related procedures over receipting, billing, approving grant agreements, and submitting grant expenditure requests. Because of this decentralized processing, department systems are not maintained at the same standards and federal and state grant reports and other financial information is not always completed in the most efficient manner.

We believe centralizing various financial duties improves the overall financial procedures of the County. Over the past couple of years, we have seen many counties increase the responsibilities of their finance department over department financial management systems. In our opinion, this involvement has resulted in more consistent procedures in County departments and has improved the overall financial systems of the departments.

We commented on this subject at the conclusion of our 2006 but believe it is important to remind the board of the importance of these items so we are repeating it for 2007. Accordingly, we recommend the County consider extending the following responsibilities to the County's finance department:

- 1) Assist County departments in the development and implementation of financial systems, including specific procedures being completed by department employees.
- 2) Approve all proposed grant applications and budgets prior to them being submitted to the respective federal or state agency. Currently, County departments have generally obtained committee approval to submit grant applications. While we believe committee approval is important, we believe the grant applications should be submitted to the finance department for approval prior to obtaining committee approval. Because the finance department is responsible for developing the County's annual budget, it is important that any County funding commitments, either current or in the future, be evaluated by the County in the process of determining whether submitting the grant application is in the best interest of the County. Also, the finance department is able to review whether the grant budget submitted by the County is reasonable. Finally, the finance department can then work with the department in establishing appropriate general ledger accounts to accumulate grant expenditures in accordance with the terms of the grant agreement.

- 3) Obtain and review all state and federal claims for reimbursement and other required grant financial reports.
- 4) Assist with the hiring and training of individual department personnel who work with financial systems of the County. Finance department personnel could use their expertise to evaluate potential employees to determine if they can complete the financial tasks which will be assigned to them and also improve employee performance through training and subsequent monitoring of the employee's progress.

Documentation of Financial Policies and Procedures

In our prior year audit recommendation, we noted that auditing standards changed which result in increased focus on internal controls. A key component of internal controls is the policies and procedures that help ensure that management's directives are being carried out.

Accordingly, we recommended the County develop an updated, comprehensive policies and procedures manual which would serve the County as follows:

1. Coordinate financial management among the various County departments.
2. Establish responsibility at all levels of management and provide necessary authority and controls to permit discharge of those responsibilities.
3. Provide managers and employees a handbook of the approved financial management policies, procedures, forms and reports for guidance, instruction and reporting.
4. Simplify administrative and operating practices by standardizing procedures and reporting.
5. Provide a flexible way to implement and communicate changes and improvements as they arise.
6. 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 legal and management policies.

This comment is provided for informational purposes and we continue to recommend the County work towards the development of this manual.

DEVELOPMENTAL DISABILITIES CENTER

Billings for Services Provided to Long-term Care Clients

County personnel have implemented procedures and independently calculated the rate for services provided to long-term care clients during the 2008 close-out process. Our review of the County's procedures indicates County personnel adequately determined the rate for service; however, additional oversight by the finance department and more periodic meetings throughout the year would further improve County procedures.

We therefore recommend the County's finance department continue its meetings with personnel from the Developmental Disabilities Center to further enhance understanding of the procedures to determine the rate to bill.