

Reporting and insights from
2020 audit:
County of Luzerne,
Pennsylvania

December 31, 2020

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Executive summary

We have substantially completed our audit of the financial statements of the County of Luzerne, Pennsylvania (the County) for the year ended December 31, 2020. This letter presents communications required by our professional standards.

Your audit should provide you with confidence in your financial statements. The audit was performed based on information obtained from meetings with management, data from your systems, knowledge of your County's operating environment and our risk assessment procedures. We strive to provide you clear, concise communication throughout the audit process and of the final results of our audit.

Additionally, we have included information on key risk areas the County should be aware of in your strategic planning. We are available to discuss these risks as they relate to your organization's financial stability and future planning.



2020 Audit Status

- Draft report is currently in the final review process
 - Management is reviewing a draft
 - Our internal review team is reviewing
- Procedures to be completed this week:
 - Update legal representation letter
 - Consider final subsequent events
- Expect to issue the final report on or around June 25, 2021
- Significant Outstanding Items:
 - None
- Council Presentation Timeline
 - July 13, 2021



Responsibilities


RESPONSIBILITIES

Our responsibilities

As your independent auditor, our responsibilities include:

- Planning and performing the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high level of assurance.
- Assessing the risks of material misstatement of the financial statements, whether due to fraud or error. Included in that assessment is a consideration of the County's internal control over financial reporting.
- Performing appropriate procedures based upon our risk assessment.
- Evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management.
- Forming and expressing an opinion based on our audit about whether the financial statements prepared by management, with the oversight of those charged with governance:
 - Are free from material misstatement
 - Present fairly, in all material respects, and in accordance with accounting principles generally accepted in the United States of America


AUDIT OBJECTIVES




Our responsibilities

We are also required to communicate significant matters related to our audit that are relevant to the responsibilities of those charged with governance, including:

- Qualitative aspects of the County's accounting practice including
 - Policies
 - Accounting estimates
 - Financial statement disclosures
- Significant difficulties encountered
- Disagreements with management
- Significant estimates
- Other findings or issues arising from the audit

AUDIT OBJECTIVES

Management's responsibilities

Management	Auditor
 <p>Prepare and fairly present the financial statements</p>	<p>Our audit does not relieve management or those charged with governance of their responsibilities</p>
 <p>Establish and maintain effective internal control over financial reporting</p>	<p>An audit includes consideration of internal control over financial reporting, but not an expression of an opinion on those controls</p>
 <p>Provide us with written representations at the conclusion of the audit</p>	<p>Obtain written acknowledgement of significant representations from management.</p>



Audit status



AUDIT STATUS

Significant changes to the audit plan

There were no significant changes made to either our planned audit strategy or to the significant risks and other areas of emphasis identified during the performance of our risk assessment procedures.



Audit approach and results


AUDIT APPROACH AND RESULTS

Planned scope and timing

Audit focus

Based on our understanding of the County and environment in which you operate, we focused our audit on the following key areas:

- Key transaction cycles
- Areas with significant estimates
- Implementation of new accounting standards
- Areas of complexity including:
 - Long-term debt
 - Net Pension and OPEB Liabilities and related actuarial assumptions
 - Self-Insurance worker's compensation and related assumptions
 - Fair value of Derivative instruments (Basis Swaps)

Our areas of audit focus were informed by, among other things, our assessment of materiality. Materiality in the context of our audit was determined based on specific qualitative and quantitative factors combined with our expectations about the County's current year results.

AUDIT APPROACH AND RESULTS

Key areas of focus and significant findings

Significant risks of material misstatement

A significant risk is an identified and assessed risk of material misstatement that, in the auditor’s professional judgment, requires special audit consideration. Within our audit, we focused on the following significant risks noted below.

Significant risk areas	Testing approach	Conclusion
Management override of controls	Incorporate unpredictability into audit procedures, emphasize professional skepticism and utilize audit team with industry expertise	Procedures identified provided sufficient evidence for our audit opinion
Improper revenue recognition of CARES Act Federal Funding	Validation of recognition of CARES Act revenues and correlation to allowable expenditures	Procedures identified provided sufficient evidence for our audit opinion

AUDIT APPROACH AND RESULTS

Key areas of focus and significant findings

We also focused on other areas that did not meet the definition of a significant risk, but were determined to require specific awareness and a unique audit response.

Other key areas of emphasis	Testing approach	Conclusion
Cash and cash equivalents	Confirmation and detail review of reconciliations	Procedures identified provided sufficient evidence for our audit opinion
Revenues and receivables	Confirmation, detail substantive testing	Procedures identified provided sufficient evidence for our audit opinion
General disbursements	Test of controls	Procedures identified provided sufficient evidence for our audit opinion
Payroll	Test of controls	Procedures identified provided sufficient evidence for our audit opinion
Pension and OPEB liabilities	Review of actuarial reports, testing of assumptions and underlying data	Procedures identified provided sufficient evidence for our audit opinion
Long-term debt	Confirmation of outstanding balances	Procedures identified provided sufficient evidence for our audit opinion
Derivative instruments	Confirmation and detail testing of fair value	Procedures identified provided sufficient evidence for our audit opinion
Capital assets	Detail testing and vouching of additions to supporting invoice	Procedures identified provided sufficient evidence for our audit opinion
Net position calculations	Detail testing	Procedures identified provided sufficient evidence for our audit opinion


AUDIT APPROACH AND RESULTS

Required communications

Qualitative aspect of accounting practices

- Accounting policies: Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we have advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County are described in Note 1 to the financial statements. As described in Note 1, the County changed accounting policies related to accounting and financial reporting for fiduciary activities, certain disclosures related to debt and for certain component unit criteria by adopting GASB Statements No. 84, 88 and 97 in 2020. Accordingly, the accounting change has been retrospectively applied to the period presented. We noted no transactions entered into by the County during the year for which accounting policies are controversial or for which there is a lack of authoritative guidance or consensus or diversity in practice.
- Accounting estimates: Accounting estimates, including fair value 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, the degree of subjectivity involved in their development and because of the possibility that future events affecting them may differ significantly from those expected.

AUDIT APPROACH AND RESULTS

Required communications

The following estimates are of most significance to the financial statements:

Estimate	Management's process to determine	Baker Tilly's conclusions regarding reasonableness
Accrued compensated absences	Evaluation of hours earned and accumulated in accordance with employment policies and average wage per hour rates	Reasonable in relation to the financial statements as a whole
Net pension liability and related deferrals	Evaluation of actuarial valuation of pension assets and projected future liabilities, including actuarial assumptions prepared by Boomershine Consulting	Reasonable in relation to the financial statements as a whole
Self-insurance workers compensation claims, including incurred by not reported claims	Historical claims analysis and report provided by a 3 rd party administrator	Reasonable in relation to the financial statements as a whole
Allowance for doubtful accounts (uncollectible taxes)	Evaluation of historical revenues	Reasonable in relation to the financial statements as a whole
Total OPEB liability and related deferrals	Evaluation of actuarial valuation of the OPEB plan projected future liabilities, including actuarial assumptions prepared by Boomershine Consulting	Reasonable in relation to the financial statements as a whole
Depreciation	Evaluate estimated useful life of the asset and original acquisition value	Reasonable in relation to the financial statements as a whole
Fair value of investment derivative instruments	Evaluation of assumptions and fair value estimates.	Reasonable in relation to the financial statements as a whole

There have been no significant changes made by management to either the processes used to develop the particularly sensitive accounting estimates or to the significant assumptions used to develop the estimates noted above.

– Financial statement disclosures: The disclosures in the financial statements are neutral, consistent and clear.


AUDIT APPROACH AND RESULTS

Required communications

Significant difficulties encountered during the audit

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

Other audit findings or issues

We encountered no other audit findings or issues that require communication at this time.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the 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.

Disagreements with management

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.


AUDIT APPROACH AND RESULTS

Required communications

Significant unusual transactions

There have been no significant transactions that are outside the normal course of business for the County or that otherwise appear to be unusual due to their timing, size or nature.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing or accounting matters.

Going concern

Pursuant to professional standards, we are required to communicate to you, when applicable, certain matters relating to our evaluation of the County's ability to continue as a going concern for a reasonable period of time but no less than 12 months from the date the financial statements are issued or available to be issued, including the effects on the financial statements and the adequacy of the related disclosures, and the effects on the auditor's report. No such matters or conditions have come to our attention during our engagement.


AUDIT APPROACH AND RESULTS

Required communications

Group audits

The County's financial statements include information that was audited by other auditors as follows:

- We obtained the financial statements of the individual components of the County's financial reporting entity that are audited by separate auditors.
- We evaluated the competence and reputation of the individual auditors utilized and the separate financial statements to make reference to the audit of the component auditors' on the group financial statements.
- Beyond providing instructions on the nature and timing of work to be performed, we were not involved in the work performed by the component auditors.

Independence

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


AUDIT APPROACH AND RESULTS

Required communications

Related parties

We did not have any significant findings or issues arise during the audit in connection with the County's related parties.

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.


AUDIT APPROACH AND RESULTS

Nonattest services

The following nonattest services were provided by Baker Tilly:

- Technical assistance with the preparation of the financial statements and notes thereto
- Proposal of general, adjusting or correcting journal entries
- Technical assistance with the conversion of fund level financial statements to government-wide financial statements
- Technical assistance with the implementation of new accounting standards

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.

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



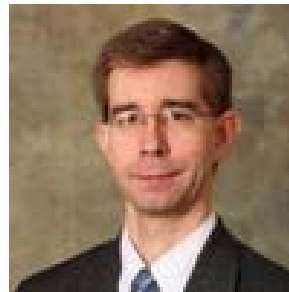
Appendix A: Client service team

CLIENT SERVICE TEAM

Client service team



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