**TOPIC:** Planning Materiality  
**OFFICE:** Auditor  
**STATE:** IN  
**DATE:** 04/20/2012

**QUESTION / ISSUE:** We currently use the planning materiality worksheet from PPC. If you don’t use this worksheet, what does your office use as a percentage for setting planning materiality and what is that percentage based on?

<table>
<thead>
<tr>
<th>State</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colorado</td>
<td>Our office uses the planning materiality worksheet from PPC as the basis for our calculation for base amounts up to $1 billion. In addition, we generally use a one percent calculation for base numbers over $1 billion. This percentage was based on results of inquiries we made several years ago of other audit offices throughout the country.</td>
</tr>
<tr>
<td>Missouri</td>
<td>For the audit of the state’s financial statements, planning materiality and tolerable misstatement amounts are calculated based on guidance obtained from the Thomson PPC <em>Guide to Audits of Local Governments</em> (Form ALG-CX-2.1: “Materiality Worksheet for Planning Purposes”).</td>
</tr>
<tr>
<td>Montana</td>
<td>Attached are a couple of tools the Legislative Audit Division uses for materiality determinations. We require staff to use these tools on all financial audits. We use the prior year audited financial statements as a basis for our materiality decisions on the current year’s audit, and then update our materiality decisions once the current year’s financial statements have been prepared by the client. The state of Montana has a centralized accounting system. We use the state’s accounting system to drill down from the amounts presented on the financial statements to arrive at the individual material accounts and funds. The materiality percentages are decided by the audit teams by engagement. I’ve seen them range anywhere from 3% to 10% and is based on auditor judgment. We typically rotate on and off audits every two years.</td>
</tr>
<tr>
<td>North Dakota</td>
<td>The attached document shows the percentages we use and a reference to where the percentages came from.</td>
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<tr>
<td>Wisconsin</td>
<td>Our office performs the statewide audit of Wisconsin’s CAFR, as well as various stand-alone agencies. We tend to base planning materiality on whatever the key “driver” is of the agency. That is, if sales/expenses are the main activity, such as for a lottery, we would base materiality on either revenues or expenses. However, for a fund such as our Investment Fund (the fund that invests the state’s cash balance in short-term investments), we would base materiality on assets. Attached is a workpaper (attachments excluded) that summarizes our approach for the CAFR. It discusses the bases as well as the percentages used for materiality. Also attached is an excerpt from our CAFR audit strategy document that summarizes the percentages and dollar amounts for the various opinion units.</td>
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Planning Materiality 1
MONTANA MATERIALITY WORKSHEET January 2010

AAG-SLV 4.23 states “Auditors should make separate materiality determinations for purposes of planning, performing, evaluating the results of, and reporting on the audit of a government’s basic financial statements for each opinion unit.” Complete the following steps when making materiality determinations for opinion units:

Notes: Audit Manual Chapter IV, pages 17-18 discusses opinion units. In a schedules audit, each financial schedule is an opinion unit. There can be one or more opinion units in a financial statement audit; e.g. Board of Housing is a single opinion unit; Board of Investments has multiple opinion units. Before completing materiality assessments, identify your opinion unit(s). The work papers resulting from the use of this worksheet must either be saved in a single central location OR be easily hyperlinked to more easily identify where crossover assurance can be obtained and where crossover risks exist. Materiality determinations are done for each opinion unit, therefore start with financials. For schedules audits, this means the first year’s schedules. For statement audits, this means the most current financial statements available (Document any departure). If trial balances or other tools are used to drill down on financial schedule/statement balances, tie amounts back to the schedule/statement to ensure the detail is complete. Do not include information on audit assurances/procedures planned for non-material balances as part of the materiality documentation.

I. PLANNING

A. Apply initial analytical review procedures to identify potential material items from both quantitative and qualitative perspectives. These analytical procedures should be aimed specifically at identifying risks of material misstatement, including developing expectations about plausible relationships reasonably expected to exist. Prior audit experience, management’s determination of materiality, consideration of new/deleted activities, and any other elements of which you are aware are inputs to preliminary materiality judgment. (NOTE: This and all other decisions made using this worksheet should be based on the needs of the groups of financial statement/schedule users, not the inherent characteristics of the entity.)

B. Apply quantitative analysis to:

   i. Establish materiality levels and document the reasons supporting your decision. For schedule audits, the minimum baselines (the key numbers to use in setting scope) are total revenues for the revenue schedule, total expenditures for the expenditures schedule, and total fund balances for the schedule of changes. Use these major classifications (appropriately applied-net assets v fund balance) in statement audits also. Departure from baselines must be documented, including the reasons for departure.

   ii. Identify the financial schedule/statement items that meet or exceed your materiality level for each opinion unit.

   iii. Document the balances (account balances), accounts (transaction classes), and disclosures that, in your judgment, require audit attention necessary to support conclusions on the financial schedule/statement items identified in step 1B2. These items will then provide support to the opinion(s). Remember to address the impact of balance sheet account activity on ending fund balance.
Balances, accounts and disclosures that do not meet/exceed quantitative materiality may be included in the scope of your audit because of an interrelationship with another account balance/activity/disclosure (i.e. you can’t audit one without auditing the other).

Examples include:
- Current and non-current bonds payable
- Salaries (regular, sick leave, vacation, etc.) – same timesheet/process supports all accounts
- Transfers-in that are dependent on compliance with statutory allocations, and the corresponding transfer-out is within the same business unit (e.g. coal tax and resource indemnity transfers, or allocations of Trust Fund Bond Pool investment earnings to the various trusts)
- Liquor division revenues, excise taxes, commissions all derive from the point of sale to the liquor store owner.

C. Document your consideration of the need to confirm receivables (AU 330.34) and investments (AU 332) or observe inventory (AU 331.11) because these decisions are primarily based on materiality levels. Auditors should still consider these items for schedule audits because of their effect on fund balance.

D. Document the balances/accounts/disclosures that will be included or excluded for qualitative reasons only. This should be based on the potential to affect the economic decisions of the users of the financial statements/schedules and/or riskiness. In general, the most common users of the financial statements/schedules include the Legislative Audit Committee and legislature. Other users could include the general public, the agency, audit committees, boards or commissions attached to agencies. Known users other than the audit committee and legislature should be documented here.

E. Document your consideration of the risk of material unrecorded activity/balances/disclosures (i.e. if it were recorded and reported, it would be material).

F. Based on the results of the procedures A - E, summarize the anticipated level of assurance and conclude it is reasonable (if you can’t make this conclusion, repeat procedures A – E).

G. Reference (link) to the risk assessments for the account balances, classes of transactions, and disclosures identified in F above.

H. Document your consideration of the tolerable misstatement and trivial misstatement level for each identified material account, class of transactions, or disclosure. The tolerable level does not have to be the same for every account or class of transaction or disclosure, but may be. A tolerable and trivial misstatement level must also be established for errors found in account balances/classes of transactions/disclosures that do not have a separate level. This additional level will be used for items found during overall testing or as a result of other testing (i.e. high dollar testing). This consideration should be based on:

- The needs of the financial statement/schedule users,
- The extent of testing necessary due to the entity having multiple locations,
- Other factors affecting the risk of the account balance, class of transactions, or disclosure. (i.e. the type of testing planned can have an impact on the risk of not detecting a material misstatement, such as statistically sampling an entire account balance reduces the risk that errors will be missed.)
Tolerable misstatement is the maximum error in a population (account balance, class of transactions or disclosure) that the auditor is willing to accept, it allows for the possibility that some misstatements of lesser amounts than materiality may aggregate to result in a material misstatement.

Trivial misstatements are those misstatements that do not need to be accumulated or communicated to management. Items above the trivial misstatement level will be accumulated for consideration of aggregation and will also be communicated to management. It is a percentage of the tolerable misstatement level. Items below the trivial misstatement level have no risk of being individually or aggregately significant or material.

2. **CONSIDERATIONS FOR PERFORMING** – The audit team is expected to use tolerable misstatement levels (procedure 1H) in designing and performing audit tests (e.g. run high dollar reports using the tolerable misstatement level; if multiple levels exist, use the lowest amount to be conservative); reasons for departure must be documented as part of the audit work.

3. **CONSIDERATIONS FOR EVALUATING THE RESULTS OF AND REPORTING ON THE AUDIT** The tolerable misstatement level should be used in evaluating the results of audit tests. This is documented at the individual step level. The auditor should also consider throughout the audit:

   A. Whether materiality levels based on preliminary or prior year statements/schedules are appropriate based on review of the financial statements/schedules under audit. (This is documented in step 10 of the FSOP)

   B. Whether the materiality levels established during planning are appropriate for evaluating audit findings based on the results of audit procedures. (i.e. a high rate of errors discovered may cause planning materiality levels to be too high, or a low rate of errors discovered may cause planning materiality levels to be too low). (This is documented through the posting/adjusting analysis performed for step 18 of the FSOP however it should be considered throughout audit work.)

   *(If materiality levels need to be lowered, the auditor should consider adjusting the tolerable misstatement and trivial misstatement levels established in step 1 and the effect those changes have on the nature, timing, and extent of further audit procedures.)*
Based on the prior audit and the likelihood of errors, we will use the same tolerable and trivial levels for material and non-material accounts and classes of transaction.

Unless otherwise noted the users of the financial schedules are the state legislators.

Other Users:
1. Identify users of the [CLIENT]'s financial statements (AU 312.04):

Bond rating agencies use the CAFR along with various municipal bond research entities. Copies are also sent to certain municipal bond insurers. Thus investor related users are significant.

Other people that receive the CAFR appear to be academicians and preparers of other CAFRs.

Legislators and citizens rely, to some degree, on our audit of the state’s financial statements. While the executive branch may rely on it too, CAFRs are external financial reports and management has other reports to rely on that provide much better timeliness.

2. Document our consideration of the needs of the users as a group (AU 312.05):

The vast majority of bonds are related to entities audited by IPAs that are rolled into the CAFR. We rely on and reference other auditors in our opinion. This significantly lessens their reliance upon our work. We do audit some Water Commission Bonds as well as lignite research and DOT bonds.

Legislators, citizens and management have not shown any direct interest in the CAFR. Given the nature of their needs and other information they have available, this is understandable. Further, Legislators have agency audit reports and other performance audits which more directly address their needs.

3. Based on our understanding of the client, its environment and risk assessment procedures performed to date, assess audit risk at the financial statement level (AU 312.12 & 15). If audit risk varies by opinion unit make separate assessments.

Nothing has come to our attention that would indicate audit risk is high. We will follow our standard materiality guidance (3% of the base deemed appropriate). OR Based upon the risks documented in our risk summary form audit risk is assessed as high. Based upon these risks we will lower our standard materiality guidance by a third (we will use 2% of the base deemed appropriate rather than 3%). [Modify based on auditor judgment!]

4. Determine the appropriate base to use to calculate materiality levels (may be different for different opinion units):

Source of base amounts used: ☑ Prior audited statements. ___ other (specify):

Indicate appropriate base by including the amount under the appropriate heading. Include calculation when needed.

<table>
<thead>
<tr>
<th>Opinion Unit</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Revenues</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Financial Statements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governmental Activities</td>
<td></td>
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</tr>
<tr>
<td>Business Activities</td>
<td></td>
<td></td>
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<tr>
<td><strong>Major Funds:</strong></td>
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<td></td>
</tr>
<tr>
<td>General Fund</td>
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<tr>
<td>Federal Fund</td>
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<tr>
<td>Discretely presented CU's</td>
<td></td>
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<tr>
<td>Remaining Funds</td>
<td></td>
<td></td>
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</table>
5. Determine materiality numbers considering prior periods' financial results and financial positions, the period-to-date financial results and financial position, and budgets or forecasts for the current period, taking account of significant changes in the entity's circumstances and relevant changes of conditions in the economy as a whole or the industry in which the entity operates.

<table>
<thead>
<tr>
<th>Opinion Unit</th>
<th>Base Amount</th>
<th>Materiality (Normally* 3% of base)</th>
<th>Tolerable Misstatement (Normally* 1/3 of materiality)</th>
<th>Trivial (SAS 107, normally 3% of TM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic Financial Statements +</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Governmental Activities</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Business Activities</td>
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* Guidance comes from July 2008 GAO/PCIE Financial Audit Manual. Auditors are required to adjust materiality judgments as needed based on audit risk or other applicable factors. Include rationale below for adjusting materiality guidance.

+ Applicable for many note disclosures, however note disclosures for specific opinion units (such as major funds) should use the related materiality levels.
Overview of Materiality Determination

Source:
- Marilyn Klement, DOA SCO Financial Reporting Section (FRS) chief (during FY07 and prior audits)
- AICPA Audit Guide: Audits of States and Local Governments (GASB 34 edition)
- Bryan Naab, LAB deputy state auditor for financial audit
- Cindy Simon, DOA SCO Financial Reporting Section chief (FY08 and future)

Purpose:
To determine which agencies and funds will typically require audit effort and our basis for determining materiality at those agencies/funds.

Findings:
Under the GASB 34 reporting model, we provide our opinion on the entity-wide financial statements, major funds, nonmajor funds/internal service funds/fiduciary funds (in aggregate – i.e., “Other Opinion Unit”), and component units (Attach A). While funds are occasionally created or eliminated, our primary audit effort is fairly consistent from year-to-year. We typically, give an opinion on the following major funds:

1. Governmental
   - General Fund
   - Transportation Fund
   - Common School Fund
2. Proprietary
   - Injured Patients and Families Compensation Fund
   - Environmental Improvement
   - University of Wisconsin System
   - Unemployment Reserve

Major Governmental Funds
General Fund
Since General Fund activities are driven by tax and other general receipts, we chose revenues as our base for materiality. There are a wide variety of general receipts (e.g., taxes, intergovernmental revenues, contributions, licenses/permits) across many agencies. Although we perform annual audit work at DOA (formerly State Treasury) to ensure that all money deposited with the State Treasurer’s Office is credited to the proper fund on WiSMART, we also need to review controls at the agency level to be assured that all receipts that should be collected are, in fact, collected and recorded on the accounting system using the proper source codes. Our overall goal was to obtain at least 75-80% coverage of revenues, expenditures, assets, and liabilities of the General Fund.

→ Materiality basis: 2% of total General Fund revenues
To achieve our 75-80% coverage of determined material accounts, we typically audit the following agencies: **DOA/SCO** (including Cash Management Unit), **DHS, DCF, DOR, DPI** and **DOC**. **Attach B** highlights the accounts that tend to be designated as material and would be covered by the applicable agencies. Note that this represents a change beginning with FY09 since DCF was created, which resulted in determination that no CAFR work was required at DWD. In addition, during our FY08 audit, we determined that no CAFR work was required at DNR.

Normally, we do complete a formal assessment of which agency balances should be reviewed, and instead rely more heavily on the coverage obtained from prior year’s strategies as a basis for ensuring that we are auditing the right accounts at the right agencies. However, each year we will evaluate whether there are new accounts or funds that need to be considered in our planning. In addition, we will consider whether there are one-time transactions in the prior year financial statements that should be adjusted when planning coverage for the next year. We will take these steps in analyzing material accounts to both ensure adequate coverage and that our current approach is still the most efficient since it is somewhat difficult to obtain data on underlying agency data included in the General Fund financial statements since there is no official combining statement. While DOA/SCO has a complete summary of General Fund composite entries by agency, this does not necessarily correlate to the actual balances (i.e., excludes WiSMART beginning data).

For FY09, there were significant changes impacting the general fund balance and our audit work, including the creation of DCF and the consolidation of the MA trust fund and the tobacco permanent endowment fund into the general fund for reporting purposes. As in any year with a significant change is identified, these changes impacted our analysis as documented in the FY 2009 **Section A-1(b)** workpapers.

**Transportation Fund**
As a special revenue fund, the Transportation Fund is used to account for the proceeds of specific revenue sources that are legally restricted for specified purposes; therefore, we consider revenues the driving force behind the activities of the fund and used revenues as the base for determining accounts to audit.

→ **Materiality basis:** 2% of revenues

**Attach C** highlights the accounts that tend to be designated as material. Note that work at three different agencies supports the Transportation opinion unit: **DOA/SCO Cash Management Unit, DOR** and **DOT**. We perform revenue and expenditure queries of our WiSMART database to determine at which agencies accounts should be audited.

**Common School Fund**
As a permanent fund, the Common School Fund is used to account for the proceeds of specific revenue sources that are used for loans to municipalities and school districts in addition to providing some direct aid to local school districts. Since its investments and loans receivables are the driving forces behind the activities of this fund, we consider assets as the base for
determining accounts to audit. Note that this was first considered a major fund beginning with FY 2009.

→ Materiality basis: 2% of assets

Attach D highlights the accounts that tend to be designated as material. Note that work at three different agencies supports the Common School opinion unit: DOA/SCO Cash, Public Lands and DPI. We perform revenue and expenditure queries of our WiSMART database and/or reviewed information obtained from SCO to determine at which agencies accounts should be audited. DOA/SCO tends to be responsible for the fines and forfeitures revenues as well as the SIF earnings portion of the investment income. DPI tends to be responsible for the education expenditures and investment income, though work at Public Lands and DOA/SCO is used to support this balance. Public Lands is generally responsible for the remaining accounts.

The liabilities of the Common School Fund have generally been determined to be insignificant and, thus, we do not intend to specifically audit the liabilities of this fund.

Major Proprietary Funds
For three of the four major proprietary funds, the Bureau is responsible for performing a stand-alone audit of the financial statements. These include: Injured Patients and Families Compensation Fund (aka PCF or IPFCF) (every 3 years), UW System (annually), and Unemployment Reserve Fund (every 2 years). The remaining fund, the Environmental Improvement Fund, is audited by an external CPA firm, upon whose work we intend to rely. Therefore, we did not perform a determination of accounts to audit for this fund. We will ensure that the audited financial statements are accurately presented in the CAFR and will reference the other CPA firms’ work in our independent auditor’s report.

The base selected reflects the major activities of the funds and is as follows:
- Injured Patient and Families Compensation Fund – 2% of total liabilities
- UW System – 2% of total assets
- Unemployment Reserve Fund – 1% of expenditures

Attach E highlights the accounts that typically are considered material.

Nonmajor Funds and the Other Opinion Unit
We use 2% of assets as the base for selecting accounts to audit for the remaining Other Opinion Unit. We believe this is a reasonable base for this opinion unit given that the majority of the activity relates to fiduciary funds, which are asset-driven. However, we also found that one or two funds included in the other opinion are significantly larger than the others and may skew our materiality determinations. Thus, we determined that if any particular fund represented more than 40% of that account type (i.e. assets, liabilities, revenues, or expenditures), that the fund would be excluded in making our preliminary determination of accounts to audit. Specifically,
we believe this issue is most likely to occur related to the WRS and LGIP. If LGIP is excluded due to skewing, 2% of revenues will be used as the base for selecting accounts within this fund since that appears to be the driving factor for this fund. Similarly, 2% of assets will continue to be used for the WRS if excluded due to skewing since this appears the be the driving factor for this fund, though accounts to audit for this fund are also based on determinations made by the ETF audit team.

Overall for the other opinion unit, our goal is to obtain 75-80% coverage for each account type. However, we also wanted to factor in the impact of the skewing that may occur due to one or two large funds. Thus, we determined that, when either removing those funds from our coverage determinations or using a weight factor to reduce/eliminate the distortion that is occurring, our goal for coverage of the remaining information would be at least 50%. Our weight factor is based on the portion of non-skewing balances to the overall CAFR balance.

Our first step is to determine the material accounts across all nonmajor funds. Then, we select various agencies/funds that comprise the majority of these balances through evaluation of those accounts that have been determined to be material in past audits as well as scanning the CAFR to determine whether there are other large accounts that we should consider for audit. In this evaluation, we use auditor judgment in selecting the agencies in conjunction with developing efficient coverage for the government-wide statements. For instances, we may choose to perform work on accounts that are not considered material while not auditing accounts that may be material on a overall basis due to the number of underlying funds the comprise these balances, qualitative factors that may arise, and audit efficiency.

We typically base our audit work on ETF, DHS, DOT, Commerce, Lottery, and DOA Central for six nonmajor governmental funds, five nonmajor enterprise funds, and four fiduciary funds. Work performed for the Lottery fund is critical for the government-wide statement of activities since there is a separate category for this two business-type activity. We will also be relying on an external audit of the College Savings Program, a private purpose trust fund (fiduciary fund type), with assumed 100% coverage of this fund. For a summary of coverage, see Attach E, H.

Each year, we will evaluate whether there are other funds/accounts that should be considered as well as one-time events to assess the reasonableness of limiting our auditing to ETF, Lottery, DOA, and a few other funds/accounts at DHFS, DOT, and Commerce for this opinion unit by completing a materiality review of nonmajor fund assets, liabilities, revenues, and expenses by fund. [Similar to the analysis suggested for the General Fund.] In addition, areas where additional coverage may be needed for the government-wide statements would presumably be obtained from nonmajor funds which would also increase our coverage of this opinion unit.

As another way to expand our audit coverage of the Other Opinion Unit while improving the efficiency of our audit work is the potential to cycle nonmajor and internal service funds. We will continue to consider this possibility in future years.
Government-Wide Financial Statements

**Governmental Activities**

Materiality is based on 2% of total governmental activities revenues (including both program and general revenues). After determining what material accounts will be, we assume that they will be audited at least 90%, with existing coverage obtained from fund-level statements +/- any conversion adjustments from the fund-level to the government-wide level statements. Our goal is to obtain 75-80% coverage for total assets, liabilities, revenues, and expenses of the governmental activities. However, some skewing occurs, particularly on the balance sheet related to infrastructure and the noncurrent portion of the long-term liabilities. We considered any account balance exceeding 25% of the overall account type (e.g. assets, etc.) to be skewing our coverage of that account type and, thus, considered revised coverage after eliminating the skewing. Once skewing has been eliminated, our goal is to obtain at least 50% coverage.

An illustration of typical material accounts is in Attach F. To determine which capital asset and long-term liability accounts to audit, an analysis is completed based on past audit effort and planned changes. Such level of analysis is not typically completed each year to determine the accounts and agencies to focus our audit work since the significant agencies do not often change and we maintain an awareness of significant changes between years.

To ensure we obtain our desired 75-80% coverage, we may use auditor judgment to add coverage of certain nonmajor funds/accounts if necessary. However, since our materiality determinations have been relatively stable, we typically find that our planned coverage for the nonmajor funds is sufficient to ensure adequate coverage for the governmental activities, after adding the conversion entries and certain entity-wide only accounts. However, we should continue to monitor the adequacy of our coverage of governmental activities each year and, if necessary, make adjustments to the nonmajor funds planned coverage.

To obtain coverage of the material revenue and expense accounts, we intend to rely primarily on the audit work performed for the General Fund and the Transportation Fund, as well as our review of off-system conversion entries. Using this methodology and assuming that 90% of selected account balances for the General Fund and Transportation Fund will be audited by agency teams, we expect to cover at least 75% of all account types. In addition, for the assets and liabilities, we generally expect to cover at least 50% of these account types when skewing effects are removed. Any exceptions to this will be discussed in our annual workpapers and adjustments to our planned coverage will be made if determined to be necessary.

**Business-Type Activities**

Materiality is based on 2% of assets. For overall coverage of each account types, our goal is to obtain 75-80% audit coverage. In addition, we consider accounts that may be skewing our determination of what to audit. Thus, we also consider anticipated audit coverage after removing the effects of this skewing and our goal is that this coverage exceeds 50%. Attach G indicates which accounts are typically designated as material starting with a base of these accounts that were already determined to be material at the fund-level for major funds. To obtain coverage of this opinion unit, we will rely on the audit of the major proprietary funds and select additional accounts as necessary.
Component Units

Five component units are presented in the CAFR:
1. Wisconsin Housing and Economic Development Authority
2. Wisconsin Health Care Liability Insurance Plan
3. University of Wisconsin Hospital and Clinics Authority
4. UW Foundation
5. State Fair Park Exposition Center.

The component units are presented in one column labeled “component units” on the government-wide statement of net assets, and each as an individual row on the government-wide Statement of Activities. All of the component units are audited by external CPA firms, upon whose work we intend to rely for WHEDA, UW Hospital, and UW Foundation. Therefore, we will not be performing audit procedures specific to account balances. We will, however, ensure that the audited financial statements are accurately presented in the CAFR and will reference the other CPA firms’ work in our independent auditor’s report.

Note that we do not consider WHCLIP and the SFP Exposition Center to be material. Therefore, we will not review these audit reports or rely on them in providing our audit opinion and will accordingly adjust our audit opinion.

Our overall audit coverage by opinion unit is shown in Attach I.

Conclusions:

We identified the typical opinion units for the CAFR and provided a brief overview of how materiality is determined, which accounts are typically material and how we obtain the coverage of those material accounts. While overall assessments have been made regarding the basis of which to determine materiality, we also use auditor judgment and, considering the risk of specific funds and accounts, to add or delete accounts to make our determination of accounts to audit. In addition, each year we will consider changes occurring with the accounts and funds during the current FY and make necessary adjustments to the accounts selected to audit.

Auditor’s Note: FY 2009 represents a change in our planning by reducing our coverage goal from 80% to 75%. This was based on conversations with other states (Att J). Additional information learned during these conversations were also incorporated/considered during our planning for FY09.

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### STATE OF WISCONSIN

#### FY 2011

**MATERIALITY LEVELS & GUIDELINES FOR DETERMINING THE SIGNIFICANCE AND REPORTING OF MISSTATEMENTS**

<table>
<thead>
<tr>
<th>Adjustment Required (Tolerable Misstatement)</th>
<th>Significant Deficiency Trigger</th>
<th>Included in Rep Letter **</th>
<th>Trivial Errors Excluded from Rep Letter</th>
<th>Errors to be Entered in Tracking Tool ♦</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Materiality Base</strong></td>
<td><strong>50% of Planning Materiality</strong></td>
<td><strong>25% of Planning Materiality</strong></td>
<td><strong>10% of Planning Materiality</strong></td>
<td><strong>10% of Tolerable Misstatement</strong></td>
</tr>
<tr>
<td>Major Funds</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>General Fund</td>
<td>$ 456,300,000</td>
<td>$ 228,150,000</td>
<td>$ 114,075,000</td>
<td>$ 45,630,000</td>
</tr>
<tr>
<td>Transportation Fund</td>
<td>$ 54,900,000</td>
<td>$ 27,450,000</td>
<td>$ 13,725,000</td>
<td>$ 5,490,000</td>
</tr>
<tr>
<td>Common School Fund</td>
<td>$ 16,400,000</td>
<td>$ 8,200,000</td>
<td>$ 4,100,000</td>
<td>$ 2,050,000</td>
</tr>
<tr>
<td>Injured Patients and Families Compensation Fund</td>
<td>$ 14,400,000</td>
<td>$ 7,200,000</td>
<td>$ 3,600,000</td>
<td>$ 1,800,000</td>
</tr>
<tr>
<td>UW System</td>
<td>$ 167,700,000</td>
<td>$ 83,850,000</td>
<td>$ 41,925,000</td>
<td>$ 21,000,000</td>
</tr>
<tr>
<td>Environmental Improvement Fund ♦</td>
<td>external auditor</td>
<td>N/A</td>
<td>N/A</td>
<td>$ 4,891,000</td>
</tr>
<tr>
<td>Government-wide Statements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governmental Activities</td>
<td>$ 499,300,000</td>
<td>$ 249,650,000</td>
<td>$ 124,825,000</td>
<td>$ 49,930,000</td>
</tr>
<tr>
<td>Business-type Activities</td>
<td>$ 238,100,000</td>
<td>$ 119,050,000</td>
<td>$ 59,525,000</td>
<td>$ 23,810,000</td>
</tr>
<tr>
<td>Other information opinion unit (excluding LGIP and WRS)</td>
<td>$ 208,200,000</td>
<td>$ 104,100,000</td>
<td>$ 52,050,000</td>
<td>$ 26,025,000</td>
</tr>
<tr>
<td>Local Government Investment Pool</td>
<td>$ 202,600,000</td>
<td>$ 101,300,000</td>
<td>$ 50,650,000</td>
<td>$ 25,325,000</td>
</tr>
<tr>
<td>Wisconsin Retirement System ♦</td>
<td>CY10 audit draft</td>
<td>$ 254,500,000</td>
<td>$ 127,250,000</td>
<td>$ 63,625,000</td>
</tr>
<tr>
<td>Governmental Activities, all except the following accounts:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Infrastructure</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$ 32,500,000</td>
</tr>
<tr>
<td>Capital Assets</td>
<td>$ 200 million OR 10% of individual agency’s portion of an account balance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>5% of account balance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-Term Liabilities</td>
<td>5% of account balance</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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### Additional Guidance:

- **While we have established materiality at the fund level using quantitative factors, SAS 107 provides guidance on consideration of qualitative factors that agency audit teams should consider when assessing materiality (see SAS 107, para. 4, 59 & 60).** The materiality levels that forms the basis for determining accounts to audit may occasionally be excessively large when auditing an account balance for an individual agency within a fund, such as the General Fund, or an individual fund that falls into an opinion unit that encompasses several funds. Therefore, in these situations, agency auditors may choose to use a lower materiality level. We believe that reasonable alternative materiality levels are as follows:

- **Fund (use opinion unit fund is contained within):** Lessor of:
  - General Fund: $400 million OR 10% of an individual agency’s portion of an account balance
  - internal service funds (i.e. funds comprising the other information opinion unit): $200 million OR 10% of individual fund’s account balance
  - Governmental Activities: $200 million OR 10% of individual agency’s portion of an account balance
    - Infrastructure
    - Capital Assets
    - Depreciation Expense
    - Long-Term Liabilities

- **If the DCF audit team may decide to use 10% of the General Fund payroll account balance at DCF for their planning materiality level. Please contact the DOA Central team for additional guidance.**

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**General Reminder:**

Factors may lead to a decision to require a smaller unadjusted error be corrected or included in the representation letter. Additional discussion is available in the text of the Single Audit Strategy.