



Gardiner & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITORS' REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

To the Officials of Cerro Gordo County
Mason City, Iowa

We have audited the general purpose financial statements of Cerro Gordo County, Iowa as of and for the year ended June 30, 2002, and have issued our report thereon dated December 5, 2002. These general purpose financial statements are the responsibility of Cerro Gordo County's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the County taken as a whole. The accompanying Schedule of Expenditures of Federal Awards, which is also the responsibility of the County's management, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Cerro Gordo County and other parties to whom Cerro Gordo County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

December 5, 2002

Gardiner & Company, P.C.

CERRO GORDO COUNTY, IOWA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2002

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Expenditures
Direct			
U.S. Department of Justice Community Oriented Policing Services	16.710		\$20,500
U.S. Environmental Protection Agency Environmental Education Grant Program	66.951		400
U.S. Department of Agriculture Water and Waste Disposal System for Rural Communities	10.760		693,900
Total Direct			\$714,800
Indirect:			
U.S. Department of Agriculture Iowa Department of Human Services Human Services Administrative Reimbursements State Administrative Matching Grants for Food Stamp Program	10.561		\$18,378
U.S. Department of Housing & Urban Development Iowa Department of Economic Development Community Development Block Grant/Small Cities Program	14.219	00-WS-050	107,795
U.S. Department of Justice Iowa Office of Justice STOP Violence Against Women	16.579	00V-214, 01V-215	25,064
Iowa Department of Justice Crime Victim Assistance	16.575	VA-02-44	22,500
Federal Emergency Management Agency Iowa Emergency Management Agency Emergency Management Performance Grant	83.522		9,277
Department of Health and Human Services Iowa Department of Human Services Childhood Lead Poisoning Prevention	93.197		46,875
Immunization Action Plan	93.268		20,858
Breast & Cervical Cancer Prevention	93.919		64,180
Community Based Cardiovascular Risk Reduction Program	93.991		16,334
HIV Counseling, Testing & Referral	93.940		12,777
Family Support Payments to States – Assistance Payments	93.560		565
Human Services Administrative Reimbursement Temporary Assistance to Needy Families	93.558		28,253
Refugee & Entrant Assistance – State Administered Programs Administered Programs	93.566		136
Child Care Mandatory & Matching Funds of the Child Care & Development Fund	93.596		3,646
Foster Care Title IV-E	93.658		9,473
Adoption Assistance	93.659		3,194
Medical Assistance Program	93.778		28,591
Social Services Block Grant	93.667		18,922
Social Services Block Grant	93.667		193,557
			447,361

CERRO GORDO COUNTY, IOWA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2002

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Expenditures
Indirect (Continued)			
Iowa Department of Elder Affairs			
Retired Area Agency on Aging			
Special Programs for the Aging --Title III			
Part B – Grants for Supportive Services & Senior Centers	93.044		\$45,000
Special Programs for the Aging – Title III			
Part D – Medication Management	93.043		6,909
National Highway Traffic Safety Administration			
Iowa Department of Public Safety			
Traffic Safety Bureau			
Alcohol Incentive Grants	20.601		9,935
Federal Highway Administration			
Iowa Department of Transportation			
Highway Planning and Construction	20.205	01-HBRR-069	135,434
Total Indirect			\$827,653
Total			\$1,542,453

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Cerro Gordo County and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation, of the general purpose financial statements.

This page was left blank intentionally.



Gardiner & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Officials of Cerro Gordo County
Mason City, Iowa

We have audited the general purpose financial statements of Cerro Gordo County, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated December 5, 2002. We conducted our audit in accordance with U.S generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Cerro Gordo County's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance 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 and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the County's operations for the year ended June 30, 2002 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the County. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item IV-B-02.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cerro Gordo County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect Cerro Gordo County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-02 is a material weakness. Prior year reportable conditions have been resolved except for item II-A-02.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Cerro Gordo County and other parties to whom Cerro Gordo County may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Cerro Gordo County during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

December 5, 2002

Hardiner & Company, P.C.



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE**

To the Officials of Cerro Gordo County
Mason City, Iowa

Compliance

We have audited the compliance of Cerro Gordo County, Iowa, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Cerro Gordo County's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Cerro Gordo County's management. Our responsibility is to express an opinion on Cerro Gordo County's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cerro Gordo County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Cerro Gordo County's compliance with those requirements.

In our opinion Cerro Gordo County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of Cerro Gordo County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Cerro Gordo County's internal control over compliance with requirements that could have a direct and material effect on a major federal program 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.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgement, could adversely affect Cerro Gordo County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Cerro Gordo County and other parties to whom Cerro Gordo County may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

December 5, 2002

Hardinier & Company, P.C.

CERRO GORDO COUNTY, IOWA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Part I: Summary of the Independent Auditors' Results

- a. An unqualified opinion was issued on the financial statements.
- b. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.
- d. No reportable conditions in internal control over major programs were noted.
- e. An unqualified opinion was issued on compliance with requirements applicable to each major program.
- f. The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- g. Major programs were as follows:
 - CFDA Number 10.760 –Water & Waste Disposal Systems for Rural Communities
 - CFDA Number 14.219 – Community Development Block Grant/Small Cities Program.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. Cerro Gordo County did not qualify as a low-risk auditee.

CERRO GORDO COUNTY, IOWA

Schedule of Findings and Questioned Costs
Year Ended June 30, 2002

Part II: Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

II-A-01 Segregation of Duties—During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the County's financial statements.

Recommendation—We realize that with a limited number of office employees, segregation of duties is difficult. However, each county official should review the operating procedures of their office to obtain the maximum internal control possible under the circumstances.

Response—We have reviewed procedures and plan to make the necessary changes to improve internal control. Specifically, the custody, record-keeping and reconciling functions currently performed by the Deputy will be separated and spread among the County Official, Deputy and Clerks. We plan to implement these changes as soon as possible.

Conclusion—Responses accepted.

Part III: Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

No matters were reported.

CERRO GORDO COUNTY, IOWA

Schedule of Findings and Questioned Costs Year Ended June 30, 2002

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-02 **Official Depositories** – A resolution naming official depositories has been adopted by the Board of Supervisors. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2002.

IV-B-02 **Certified Budget** – Disbursements during the year ended June 30, 2002 exceeded the amount budgeted in the Debt Service Service Area. Disbursements in certain departments exceeded the amounts appropriated. Emergency Management disbursements exceeded amounts budgeted at June 30, 2002.

Recommendation – The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget. Chapter 331.434 (6) of the Code of Iowa authorizes the Board of Supervisors, by resolution, to increase or decrease appropriations of one office or department by increasing or decreasing the appropriation of another office or department as long as the service area budget is not increased. Such increases or decreases should be made before disbursements are allowed to exceed the appropriation.

The Emergency Management budget should have been amended before disbursements were allowed to exceed budget.

Response – We will amend the budgets when required and award appropriations before disbursements exceed appropriations.

Conclusion – Response accepted.

IV-C-02 **Questionable Expenditures** – We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979

IV-D-02 **Travel Expense** – No expenditures of County money for travel expenses of spouses of County officials or employees were noted.

IV-E-02 **Business Transactions** – Business transactions between the County and County officials or employees are detailed as follows:

<u>Name & Title</u>	<u>Transaction</u>	<u>Amount</u>
John Bakehouse, spouse of Penny Bakehouse – Public Health Nurse	Janitorial Service	\$13,500

The transactions with John Bakehouse may not be authorized in accordance with Chapter 331.342 of the Code of Iowa.

Response – John Bakehouse: The Cerro Gordo County Department of Public Health seeks annual bids from at least three (3) cleaning companies. Bid requests including cleaning specifications are mailed out around March/April time period. The contract is from July (fiscal year beginning) to June (fiscal year ending). Each year the health department's attorney reviews the contract procedures and awarding.

Conclusion – Response accepted.

CERRO GORDO COUNTY, IOWA

Schedule of Findings and Questioned Costs Year Ended June 30, 2002

- IV-F-02 **Bond Coverage** – Surety bond coverage of County officials and employees is in accordance with statutory provisions. The amount of all bonds should be periodically reviewed to ensure that the coverage is adequate for current operations.
- IV-G-02 **Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- IV-H-02 **Resource Enhancement and Protection Certification** – The County properly dedicated property tax revenue to conservation purposes as required by Chapter 455A.19(1)(b) of the Code of Iowa in order to receive the additional REAP funds allocated in accordance with subsections (b)(2) and (b)(3).
- IV-I-02 **Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the County's Investment Policy were noted.
- IV-J-02 **Economic Development** – During the year ended June 30, 2002, the County paid \$269,465 for Economic Development, which appears to be an appropriate expenditure of public funds since the public benefits to be derived have been clearly documented.
- IV-K-02 **Grant Activity** – The County complied with grant regulations; no violations were noted.
- IV-L-02 **County Extension Office** – The County Extension Office is operated under the authority of Chapter 176A of the Code of Iowa and serves as an agency of the State of Iowa. This fund is administered by an extension council separate and distinct from County operations and, consequently, is not included in Exhibits A or B. Disbursements for the County Extension Office during the year ended June 30, 2002, did not exceed the amount budgeted.
- IV-M-02 **Disbursements** – It was noted that not all invoices were cancelled and that the County Treasurer did not sign the warrants list prior to issuance.

Recommendation – All invoices should be cancelled to prevent reuse. Chapter 331.506 states that the County Auditor shall not issue a warrant to a drawee until the County Treasurer approves and signs the detailed list of warrants to be issued.

Response – We will comply immediately.

Conclusion – Response accepted.

- IV-N-02 **Deficit Balance** – We noted a deficit balance in the Retained Earnings of the Enterprise Fund – Swaledale Wastewater Collection & Treatment Facility Account.

Recommendation – The County should determine a method to eliminate the deficit balance in the Swaledale Wastewater Collection & Treatment Facility Account.

Response – User fee revenues were only intended to cover operational expenses and debt service, not depreciation expenses. We recognize there will be a deficit balance in the Retained Earnings of the Swaledale Wastewater Collection & Treatment Facility Account.

Conclusion – Response acknowledged.