



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE June 21, 2004

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Auditor of State David Vaudt today released an audit report on the City of Hartford, Iowa.

The City's receipts totaled \$1,209,763 for the year ended June 30, 2001, and included \$153,835 in property tax, \$828,676 from other governments and \$200,079 in charges for service. The City also received water revenue capital loan note proceeds of \$440,620 that are reported as other financing sources.

Disbursements for the year ended June 30, 2001 totaled \$1,601,358, and included \$75,824 for community protection, \$3,270 for human development, \$1,469,621 for home and community environment and \$52,643 for policy and administration.

The report contains recommendations to the City Council and other City officials. For example, the City should implement procedures to ensure claims are not charged to more than one federal or state program. In addition, operating procedures should be reviewed to obtain the maximum internal control possible and utility billings, collections and delinquencies should be reconciled. City officials have responded to each item in the report and stated corrective action has or will be taken.

The City claimed costs in excess of an Iowa Department of Transportation grant agreement, resulting in overpayments to the City of \$111,423. The audit also identified questioned costs of \$221,456 which the City may be required to repay to the Iowa Department of Natural Resources and the Iowa Department of Economic Development.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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CITY OF HARTFORD

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2001

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City of Hartford

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Paul W. Hunt	Mayor	Nov 2001
Dale Warner	Council Member	Nov 2001
Barb Baber	Council Member	Jan 2002
Caroline McNamar	Council Member	Jan 2004
Kim Dingeman	Council Member	Jan 2004
Sophia Eckert	Council Member	Jan 2004
Margie Shetterly-Spence	City Clerk	Resigned Dec 31, 2000
Gloria Bingaman (appointed Jan 2, 2001)	City Clerk	Resigned Jun 29, 2001
Bradley Herrold (appointed Jun 29, 2001)	City Clerk	Indefinite
Robert M. Benton	City Attorney	Indefinite

City of Hartford



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Hartford, Iowa, as of and for the year ended June 30, 2001. These financial statements are the responsibility of the City of Hartford's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.


In our opinion, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Hartford as of and for the year ended June 30, 2001, and its indebtedness at June 30, 2001, on the basis of accounting described in note 1.

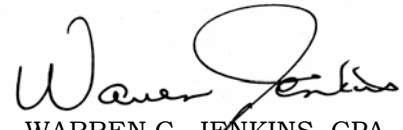
As discussed in note 11, the City of Hartford claimed costs in excess of an Iowa Department of Transportation grant agreement, resulting in overpayments to the City of \$111,423.

As discussed in note 12, the City of Hartford did not comply with certain requirements governing allowable costs/cost principles applicable to the Capitalization Grant For Drinking Water State Revolving Fund Program and the Community Development Block Grant - State's Program. As a result, costs of \$221,456 were questioned. Resolving these instances of non-compliance for these programs is ultimately the responsibility of the Iowa Department of Natural Resources and the Iowa Department of Economic Development. The ultimate disallowance of the questioned costs, if any, cannot presently be determined.

In accordance with Government Auditing Standards, we have also issued our reports dated April 1, 2004 on our consideration of the City of Hartford's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 7, including the Statement of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 1, 2004

Financial Statements

City of Hartford
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2001

	Governmental Fund			
	General	Special Revenue	Debt Service	Capital Projects
Receipts:				
Property tax	\$ 87,098	11,776	54,961	-
Other city tax	984	-	-	-
Licenses and permits	2,738	-	-	-
Use of money and property	2,478	135	-	-
Intergovernmental	19,692	62,053	-	612,513
Charges for service	28,043	-	-	-
Miscellaneous	3,759	5,674	-	-
Total receipts	<u>144,792</u>	<u>79,638</u>	<u>54,961</u>	<u>612,513</u>
Disbursements:				
Community Protection Program	49,139	14,810	11,875	-
Human Development Program	3,208	62	-	-
Home and Community Environment Program	88,946	61,033	42,920	593,633
Policy and Administration Program	49,084	3,559	-	-
Total disbursements	<u>190,377</u>	<u>79,464</u>	<u>54,795</u>	<u>593,633</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(45,585)</u>	<u>174</u>	<u>166</u>	<u>18,880</u>
Other financing sources (uses):				
Sale of property and equipment	4,244	-	-	35,445
Water revenue note proceeds(net of \$5,380 loan initiation fee)	-	-	-	-
Bank loan proceeds	11,950	-	-	240,000
Bank loan repayment	-	-	-	(240,000)
Operating transfers in	20,893	-	-	-
Operating transfers out	-	(20,893)	-	-
Total other financing sources (uses)	<u>37,087</u>	<u>(20,893)</u>	<u>-</u>	<u>35,445</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>(8,498)</u>	<u>(20,719)</u>	<u>166</u>	<u>54,325</u>
Balance beginning of year	<u>19,265</u>	<u>97,563</u>	<u>24,635</u>	<u>134,536</u>
Balance end of year	<u>\$ 10,767</u>	<u>76,844</u>	<u>24,801</u>	<u>188,861</u>

See notes to financial statements.

Proprietary Fund Type Enterprise	Total (Memorandum Only)
-	153,835
-	984
-	2,738
1,891	4,504
134,418	828,676
172,036	200,079
9,514	18,947
<u>317,859</u>	<u>1,209,763</u>
-	75,824
-	3,270
683,089	1,469,621
-	52,643
<u>683,089</u>	<u>1,601,358</u>
<u>(365,230)</u>	<u>(391,595)</u>
-	39,689
440,620	440,620
120,000	371,950
(120,000)	(360,000)
900	21,793
(900)	(21,793)
<u>440,620</u>	<u>492,259</u>
75,390	100,664
<u>(78,469)</u>	<u>197,530</u>
<u>(3,079)</u>	<u>298,194</u>

City of Hartford

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2001

	Actual	Less Funds Not Required to be Budgeted	Net	Amended Budget
Receipts:				
Property tax	\$ 153,835	-	153,835	148,996
Other city tax	984	-	984	-
Licenses and permits	2,738	-	2,738	1,575
Use of money and property	4,504	135	4,369	1,350
Intergovernmental	828,676	-	828,676	1,259,318
Charges for service	200,079	-	200,079	189,784
Miscellaneous	18,947	5,674	13,273	3,900
Total receipts	<u>1,209,763</u>	<u>5,809</u>	<u>1,203,954</u>	<u>1,604,923</u>
Disbursements:				
Community Protection Program	75,824	7,418	68,406	66,385
Human Development Program	3,270	-	3,270	4,496
Home and Community Environment Program	1,469,621	-	1,469,621	1,382,438
Policy and Administration Program	52,643	-	52,643	51,189
Total disbursements	<u>1,601,358</u>	<u>7,418</u>	<u>1,593,940</u>	<u>1,504,508</u>
Excess (deficiency) of receipts over (under) disbursements	(391,595)	(1,609)	(389,986)	100,415
Other financing sources, net	<u>492,259</u>	-	<u>492,259</u>	<u>(47,588)</u>
Excess of receipts and other financing sources over (under) disbursements and other financing uses	100,664	(1,609)	102,273	52,827
Balance beginning of year	<u>197,530</u>	<u>9,720</u>	<u>187,810</u>	<u>127,149</u>
Balance end of year	<u>\$ 298,194</u>	<u>8,111</u>	<u>290,083</u>	<u>179,976</u>

See notes to financial statements.

<u>Variance</u> <u>Favorable</u> <u>(Unfavorable)</u>	<u>Net as %</u> <u>of Amended</u> <u>Budget</u>
4,839	103%
984	
1,163	174%
3,019	324%
(430,642)	66%
10,295	105%
9,373	340%
<u>(400,969)</u>	<u>75%</u>
(2,021)	103%
1,226	73%
(87,183)	106%
(1,454)	103%
<u>(89,432)</u>	<u>106%</u>

City of Hartford
Statement of Indebtedness
Year ended June 30, 2001

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Sewer construction	Apr 1, 1986	7.30%	\$ 325,000
General obligation capital loan notes:			
Essential corporate purpose	Dec 1, 1991	6.25%	\$ 92,000
Revenue capital loan notes:			
Water	May 8, 1989	9.04%	\$ 204,070
Sewer	May 8, 1989	9.04	275,848
Water	Dec 19, 2000	3.84	446,000
Total			
Bank loan - interim financing	May 23, 2000	9.25%	\$ 460,000
Bank loan - mower	Jul 5, 2000	9.50%	\$ 11,950
Capital lease purchase agreement:			
Tractor	Mar 26, 1999	5.75%	\$ 50,000

See notes to financial statements.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
40,000	-	40,000	-	2,920
30,000	-	10,000	20,000	1,875
134,189	-	10,288	123,901	12,131
181,389	-	13,907	167,482	16,398
-	446,000	18,000	428,000	7,149
\$ 315,578	446,000	42,195	719,383	35,678
-	360,000	360,000	-	5,828
-	11,950	-	11,950	-
38,608	-	12,130	26,478	2,217

City of Hartford

Notes to Financial Statements

June 30, 2001

(1) Summary of Significant Accounting Policies

The City of Hartford is a political subdivision of the State of Iowa located in Warren County. It was first incorporated in 1913 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Hartford has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Hartford (primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Blended Component Units

The Hartford Firemen's Enterprise Corporation and the Hartford Fire Auxiliary were organized to receive donations for the benefit of the Hartford Fire Department. The donations are used to purchase items which are not included in the City's budget. In accordance with the criteria set forth by the Governmental Accounting Standards Board, the Corporation and the Auxiliary meet the definition of component units which should be blended into the Special Revenue Funds of the City.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Warren County Assessor's Conference Board, Warren County Emergency Management Commission and Warren County Joint E911 Service Board.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid through other funds.

Special Revenue Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Debt Service Fund – The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation long-term debt.

Capital Projects Fund – The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those financed through Enterprise Funds.

Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

C. Basis of Accounting

The City of Hartford maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment and policy and administration.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2001 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3

(3) Notes Payable

Annual debt service requirements to maturity for general obligation and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 10,000	1,250	42,382	42,777	52,382	44,027
2003	10,000	625	44,768	39,777	54,768	40,402
2004	-	-	48,368	36,562	48,368	36,562
2005	-	-	51,204	33,074	51,204	33,074
2006	-	-	55,296	29,329	55,296	29,329
2007	-	-	59,668	25,266	59,668	25,266
2008	-	-	64,344	20,860	64,344	20,860
2009	-	-	68,353	16,083	68,353	16,083
2010	-	-	21,000	10,944	21,000	10,944
2011	-	-	22,000	10,137	22,000	10,137
2012	-	-	23,000	9,293	23,000	9,293
2013	-	-	24,000	8,410	24,000	8,410
2014	-	-	25,000	7,488	25,000	7,488
2015	-	-	26,000	6,528	26,000	6,528
2016	-	-	26,000	5,530	26,000	5,530
2017	-	-	28,000	4,531	28,000	4,531
2018	-	-	29,000	3,456	29,000	3,456
2019	-	-	30,000	2,342	30,000	2,342
2020	-	-	31,000	1,190	31,000	1,190
Total	\$ 20,000	1,875	719,383	313,577	739,383	315,452

The resolution providing for the issuance of the revenue notes includes the following provisions.

- (1) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (2) Sufficient monthly transfers shall be made to separate water and sewer revenue note sinking accounts for the purpose of making the principal and interest payments when due.
- (3) Additional monthly transfers shall be made to separate water and sewer revenue note reserve accounts. These transfers shall be made until specific minimum balances have been accumulated. These accounts are restricted for the purpose of making principal and interest payments when funds are insufficient in the water and sewer revenue note sinking accounts.

The City has not established the sinking accounts required by the water and sewer revenue note resolutions. Also, the City has not established the reserve accounts in the amounts required by the water and sewer revenue note resolutions.

(4) Capital Lease Purchase Agreement

The City has entered into a capital lease purchase agreement to lease a tractor. The following is a schedule of the future minimum lease payments, including interest at 5.75% per annum, and the present value of net minimum lease payments under the agreement in effect at June 30, 2001:

Year ending June 30,	Tractor
2002	\$ 14,347
2003	<u>14,347</u>
Future minimum lease payments	28,694
Less amount representing interest	<u>(2,216)</u>
Present value of net minimum lease payments	<u>\$ 26,478</u>

Payments under the capital lease purchase agreement for the year ended June 30, 2001 totaled \$14,347.

(5) Bank Loans

In August and September 2000, the City entered into bank loans for \$120,000 and \$240,000, respectively, at 9.25% per annum interest to provide interim financing for certain water main and utility relocation projects. The loans were repaid with interest in September and December of 2000.

In July 2000, the City entered into a bank loan for \$11,950 to purchase a mower. The loan requires four annual payments of \$3,729, including interest at 9.50% per annum, beginning June 26, 2001. The City did not pay the first payment due June 26, 2001 until July 2001. The unpaid balance on the loan at June 30, 2001 is \$11,950.

(6) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2001 was \$4,528, equal to the required contribution for the year.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation termination payments payable to employees at June 30, 2001, primarily relating to the General and Enterprise Funds, is \$500. This liability has been computed based on rates of pay in effect at June 30, 2001.

(8) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2001, disbursements in the community protection, home and community environment and policy and administrative programs exceeded the amounts budgeted.

(9) Risk Management

The City of Hartford is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductions and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in the year ended June 30, 2001.

(10) Deficit Balance

The Enterprise, Sewer Rental Fund had a deficit balance of \$52,976 at June 30, 2001. The deficit balance is a result of disbursements in excess of receipts. The City is investigating alternatives to eliminate the deficit.

(11) Overpayment from Iowa Department of Transportation

During the year ended June 30, 2003, the Iowa Department of Transportation (IDOT) conducted a review of the City's disbursements and grant reimbursements for project STPN-5-4(33)--2J-91. IDOT's review identified overpayments of \$111,423 from IDOT to the City. The overpayments were a result of the City claiming reimbursement for 100% of all costs instead of the agreed-upon state participation for each of the various costs. The City is working with the IDOT to resolve the matter.

(12) Questioned Costs

The City of Hartford did not comply with certain requirements governing allowable costs/cost principles applicable to the Capitalization Grant For Drinking Water State Revolving Fund and Community Development Block Grant - State's Program. As detailed in items III-A-01 and III-C-01 in the Schedule of Findings and Questioned Costs, costs of \$221,456 were questioned for the grant period covering the years ended June 30, 2001 and 2000. The City may be required to repay the Iowa Department of Natural Resources and the Iowa Department of Economic Development for the questioned costs. Resolving these instances of non-compliance is ultimately the responsibility of the Iowa Department of Natural Resources and the Iowa Department of Economic Development. The ultimate disallowance of the questioned costs, if any, cannot presently be determined.

City of Hartford

Supplemental Information

Schedule 1

City of Hartford
Combining Schedule of Cash Transactions
General Fund
Year ended June 30, 2001

	General	Garbage	Recycling	Total
Receipts:				
Property tax	\$ 87,098	-	-	87,098
Other city tax:				
Utility franchise tax	984	-	-	984
Licenses and permits:				
Liquor	335	-	-	335
Cigarette	75	-	-	75
Building	2,328	-	-	2,328
	2,738	-	-	2,738
Use of money and property:				
Interest on investments	2,478	-	-	2,478
Intergovernmental:				
State allocation	8,939	-	-	8,939
Bank franchise tax	20	-	-	20
Fuel tax refund	567	-	-	567
Township fire protection	10,166	-	-	10,166
	19,692	-	-	19,692
Charges for service:				
Garbage collection	-	18,973	-	18,973
Recycling	-	-	9,030	9,030
Miscellaneous	40	-	-	40
	40	18,973	9,030	28,043
Miscellaneous:				
Refunds and reimbursements	707	-	-	707
Miscellaneous	3,052	-	-	3,052
	3,759	-	-	3,759
Total receipts	116,789	18,973	9,030	144,792
Disbursements:				
Community Protection Program:				
Police:				
Contractual services	20,000	-	-	20,000
Traffic control	513	-	-	513
Ambulance	441	-	-	441

City of Hartford

Combining Schedule of Cash Transactions

General Fund

Year ended June 30, 2001

	General	Garbage	Recycling	Total
Disbursements (continued):				
Community Protection Program:				
Fire:				
Personal services	1,771	-	-	1,771
Contractual services	14,477	-	-	14,477
Commodities	9,305	-	-	9,305
Capital outlay	2,632	-	-	2,632
	<u>28,185</u>	-	-	<u>28,185</u>
	<u>49,139</u>	-	-	<u>49,139</u>
Human Development Program:				
Library	1,100	-	-	1,100
Parks and recreation:				
Personal services	1,566	-	-	1,566
Contractual services	256	-	-	256
	<u>1,822</u>	-	-	<u>1,822</u>
Animal control	286	-	-	286
	<u>3,208</u>	-	-	<u>3,208</u>
Home and Community Environment Program:				
Street maintenance:				
Personal services	12,132	-	-	12,132
Contractual services	32,358	-	-	32,358
Commodities	2,107	-	-	2,107
Capital outlay	13,200	-	-	13,200
	<u>59,797</u>	-	-	<u>59,797</u>
Building inspections	2,989	-	-	2,989
Cemetery	1,500	-	-	1,500
Solid waste:				
Contractual services	-	17,178	-	17,178
Commodities	-	147	-	147
	<u>-</u>	<u>17,325</u>	-	<u>17,325</u>

Schedule 1

City of Hartford

Combining Schedule of Cash Transactions

General Fund

Year ended June 30, 2001

	General	Garbage	Recycling	Total
Disbursements (continued):				
Home and Community Environment Program:				
Recycling:				
Contractual services	-	-	7,266	7,266
Commodities	-	-	69	69
	-	-	7,335	7,335
	64,286	17,325	7,335	88,946
Policy and Administration Program:				
Mayor and Council Members:				
Personal services	4,200	-	-	4,200
Clerk/City Hall and legal services:				
Personal services	14,453	-	-	14,453
Contractual services	28,178	-	-	28,178
Commodities	2,253	-	-	2,253
	44,884	-	-	44,884
	49,084	-	-	49,084
Total disbursements	165,717	17,325	7,335	190,377
Excess (deficiency) of receipts over (under) disbursements	(48,928)	1,648	1,695	(45,585)
Other financing sources:				
Sale of property and equipment	4,244	-	-	4,244
Bank loan proceeds	11,950	-	-	11,950
Operating transfers in:				
Special Revenue:				
Road Use Tax	20,486	-	-	20,486
Employee Benefits	407	-	-	407
Total other financing sources	37,087	-	-	37,087
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(11,841)	1,648	1,695	(8,498)
Balance beginning of year	16,649	689	1,927	19,265
Balance end of year	\$ 4,808	2,337	3,622	10,767

See accompanying independent auditor's report.

City of Hartford

City of Hartford
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2001

	Road Use Tax	Emergency	Employee Benefits
Receipts:			
Property tax	\$ -	2,530	9,246
Use of money and property:			
Interest on investments	-	-	-
Intergovernmental:			
Road use tax allocation	61,480	-	-
Fuel tax refund	573	-	-
	<u>62,053</u>	<u>-</u>	<u>-</u>
Miscellaneous:			
Fundraisers	-	-	-
Total receipts	<u>62,053</u>	<u>2,530</u>	<u>9,246</u>
Disbursements:			
Community Protection Program:			
Fire:			
Personal services	-	-	77
Contractual services	-	-	-
Commodities	-	-	-
	<u>-</u>	<u>-</u>	<u>77</u>
Street lighting:			
Contractual services	7,315	-	-
	<u>7,315</u>	<u>-</u>	<u>77</u>
Human Development Program:			
Parks and recreation:			
Personal services	-	-	62
Home and Community Environment Program:			
Street maintenance:			
Personal services	12,300	-	6,026
Contractual services	-	2,026	-
Commodities	12,834	-	-
Capital outlay	13,500	-	-
Debt service:			
Principal redeemed	12,130	-	-
Interest paid	2,217	-	-
	<u>52,981</u>	<u>2,026</u>	<u>6,026</u>
Policy and Administration Program:			
Mayor and Council Members:			
Personal services	-	-	356
Clerk/City Hall and legal services:			
Personal services	-	-	3,203
	<u>-</u>	<u>-</u>	<u>3,559</u>
Total disbursements	<u>60,296</u>	<u>2,026</u>	<u>9,724</u>
Excess (deficiency) of receipts over (under) disbursements	1,757	504	(478)
Other financing uses:			
Operating transfers out:			
General	(20,486)	-	(407)
Excess (deficiency) of receipts over (under) disbursements and other financing uses	(18,729)	504	(885)
Balances beginning of year	75,227	6,496	6,120
Balances end of year	<u>\$ 56,498</u>	<u>7,000</u>	<u>5,235</u>

See accompanying independent auditor's report.

Hartford Firemen's Enterprise Corporation	Hartford Fire Auxiliary	Total
-	-	11,776
59	76	135
-	-	61,480
-	-	573
-	-	62,053
4,119	1,555	5,674
4,178	1,631	79,638
-	-	77
3,939	-	3,939
2,375	1,104	3,479
6,314	1,104	7,495
-	-	7,315
6,314	1,104	14,810
-	-	62
-	-	18,326
-	-	2,026
-	-	12,834
-	-	13,500
-	-	12,130
-	-	2,217
-	-	61,033
-	-	356
-	-	3,203
-	-	3,559
6,314	1,104	79,464
(2,136)	527	174
-	-	(20,893)
(2,136)	527	(20,719)
5,415	4,305	97,563
3,279	4,832	76,844

Schedule 3

City of Hartford
Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2001

Receipts:	
Property tax	<u>\$ 54,961</u>
Disbursements:	
Community Protection Program:	
Principal redeemed	10,000
Interest paid	<u>1,875</u>
	<u>11,875</u>
Home and Community Environment Program:	
Principal redeemed	40,000
Interest paid	<u>2,920</u>
	<u>42,920</u>
Total disbursements	<u>54,795</u>
Excess of receipts over disbursements	166
Balance beginning of year	<u>24,635</u>
Balance end of year	<u><u>\$ 24,801</u></u>

See accompanying independent auditor's report.

City of Hartford
 Schedule of Cash Transactions
 Capital Projects Fund
 Year ended June 30, 2001

Receipts:	
Intergovernmental:	
Surface transportation funding	<u>\$ 612,513</u>
Disbursements:	
Home and Community Environment Program:	
Contractual services	590,576
Debt service:	
Interest paid	3,057
Total disbursements	<u>593,633</u>
Excess of receipts over disbursements	<u>18,880</u>
Other financing sources (uses):	
Sale of property and equipment	35,445
Bank loan proceeds	240,000
Bank loan repayment	<u>(240,000)</u>
Total other financing sources (uses)	<u>35,445</u>
Excess of receipts and other financing sources over disbursements and other financing uses	54,325
Balance beginning of year	<u>134,536</u>
Balance end of year	<u><u>\$ 188,861</u></u>

See accompanying independent auditor's report.

City of Hartford
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2001

	Water	Water Reserve
Receipts:		
Use of money and property:		
Interest on investments	\$ 1,023	-
Intergovernmental:		
Community development block grant	134,418	-
Charges for service:		
Sale of water	112,982	-
Sewer rental fees	-	-
	112,982	-
Miscellaneous:		
Sales tax collected	5,495	-
Penalties	1,843	-
Miscellaneous	829	-
	8,167	-
Total receipts	256,590	-
Disbursements:		
Home and Community Environment Program:		
Personal services	25,034	-
Contractual services	491,085	-
Commodities	21,554	-
Capital outlay	-	-
Debt service:		
Principal redeemed	28,288	-
Interest paid	22,051	-
Total disbursements	588,012	-
Deficiency of receipts under disbursements	(331,422)	-

Sewer Rental	Sewer Reserve	Total
868	-	1,891
-	-	134,418
-	-	112,982
59,054	-	59,054
59,054	-	172,036
-	-	5,495
1,347	-	3,190
-	-	829
1,347	-	9,514
61,269	-	317,859
23,531	-	48,565
18,446	-	509,531
7,260	-	28,814
15,535	-	15,535
13,907	-	42,195
16,398	-	38,449
95,077	-	683,089
(33,808)	-	(365,230)

City of Hartford
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2001

	Water	Water Reserve
Other financing sources (uses):		
Water revenue note proceeds (net of \$5,380 loan initiation fee)	440,620	-
Bank loan proceeds	120,000	-
Bank loan repayment	(120,000)	-
Operating transfers in (out):		
Enterprise:		
Water	-	900
Water Reserve	(900)	-
Total other financing sources (uses)	439,720	900
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	108,298	900
Balances beginning of year	(74,551)	5,250
Balances end of year	\$ 33,747	6,150

See accompanying independent auditor's report.

Sewer Rental	Sewer Reserve	Total
-	-	440,620
-	-	120,000
-	-	(120,000)
-	-	900
-	-	(900)
-	-	440,620
(33,808)	-	75,390
(19,168)	10,000	(78,469)
(52,976)	10,000	(3,079)

Schedule 6

City of Hartford

Note Maturities

June 30, 2001

Year Ending June 30,	General Obligation Notes	
	Essential Corporate Purpose	
	Issued Dec 1, 1991	
	Interest Rates	Amount
2002	6.25%	\$ 10,000
2003	6.25	10,000
Total		<u>\$ 20,000</u>

Year Ending June 30,	Revenue Notes							
	Water		Sewer		Water		Total	
	Issued May 8, 1989		Issued May 8, 1989		Issued Dec 19, 2000			
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount		
2002	9.04%	\$ 11,218	9.04%	\$ 15,164	3.84%	\$ 16,000		\$ 42,382
2003	9.04	12,233	9.04	16,535	3.84	16,000	44,768	
2004	9.04	13,338	9.04	18,030	3.84	17,000	48,368	
2005	9.04	14,544	9.04	19,660	3.84	17,000	51,204	
2006	9.04	15,859	9.04	21,437	3.84	18,000	55,296	
2007	9.04	17,293	9.04	23,375	3.84	19,000	59,668	
2008	9.04	18,856	9.04	25,488	3.84	20,000	64,344	
2009	9.04	20,560	9.04	27,793	3.84	20,000	68,353	
2010		-		-	3.84	21,000	21,000	
2011		-		-	3.84	22,000	22,000	
2012		-		-	3.84	23,000	23,000	
2013		-		-	3.84	24,000	24,000	
2014		-		-	3.84	25,000	25,000	
2015		-		-	3.84	26,000	26,000	
2016		-		-	3.84	26,000	26,000	
2017		-		-	3.84	28,000	28,000	
2018		-		-	3.84	29,000	29,000	
2019		-		-	3.84	30,000	30,000	
2020		-		-	3.84	31,000	31,000	
Total		<u>\$ 123,901</u>		<u>\$ 167,482</u>		<u>\$428,000</u>	<u>\$719,383</u>	

See accompanying independent auditor's report.

City of Hartford

Schedule of Expenditures of Federal Awards

Year ended June 30, 2001

Grantor / Program	CFDA Number	Agency Pass-Through Number	Program Expenditures
Indirect:			
Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Drinking Water State Revolving Fund	66.468	FS-91-99-DWSRF-018	\$ 361,314
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants - State's Programs	14.228	97-CD-044	<u>110,021</u>
Total			<u>\$ 471,335</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of City of Hartford and is presented in conformity with an other comprehensive 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 basic financial statements.

See accompanying independent auditor's report.

City of Hartford



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Hartford, Iowa, as of and for the year ended June 30, 2001, and have issued our report thereon dated April 1, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 the City of Hartford's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and 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 instances of non-compliance that are required to be reported under Government Auditing Standards and which are described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-01 and II-B-01. We also 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 City of Hartford's operations for the year ended June 30, 2001 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. 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 items IV-A-01, IV-B-01, IV-G-01 and IV-I-01.

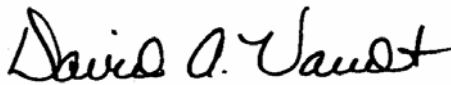
Internal Control Over Financial Reporting

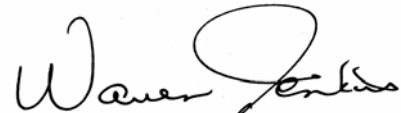
In planning and performing our audit, we considered the City of Hartford's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial 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 judgment, could adversely affect the City of Hartford'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 items II-C-01 and II-D-01 are material weaknesses. Prior year reportable conditions have been resolved except for items II-C-01, II-D-01 and II-E-01.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Hartford and other parties to whom the City of Hartford 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 the City of Hartford 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.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 1, 2004



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STATE OF IOWA

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Independent Auditor's Report on Compliance with Requirements
Applicable to its Major Program and Internal Control over Compliance

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Hartford, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2001. The City of Hartford's major federal program is 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 its major federal program is the responsibility of the City of Hartford's management. Our responsibility is to express an opinion on the City of Hartford'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, 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 the City of Hartford'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 the City of Hartford's compliance with those requirements.

As described in item III-A-01 in the accompanying Schedule of Findings and Questioned Costs, the City of Hartford did not comply with the requirements regarding allowable costs/cost principles applicable to its Capitalization Grants For Drinking Water State Revolving Fund Program. Compliance with such requirements is necessary, in our opinion, for the City of Hartford to comply with the requirements applicable to that program.

In our opinion, because of the effects of the non-compliance described in the preceding paragraph, the City of Hartford did not comply, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2001. In addition, the results of our auditing procedures disclosed other instances of non-compliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

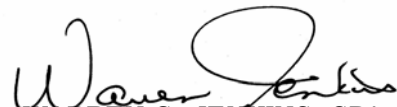
The management of the City of Hartford is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hartford's internal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

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the City of Hartford's ability to administer its major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items III-D-01 and III-E-01.

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. However, we consider both of the reportable conditions described above 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 the City of Hartford and other parties to whom the City of Hartford 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.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

April 1, 2004

City of Hartford

Schedule of Findings and Questioned Costs

Year ended June 30, 2001

Part I: Summary of the Independent Auditor's Results:

- (a) A unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit disclosed non-compliance which is material to the financial statements.
- (d) Reportable conditions in internal control over the Capitalization Grants for Drinking Water State Revolving Fund Program were disclosed by the audit of the financial statements. The reportable conditions are considered to be material weaknesses.
- (e) An adverse opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.468 – Capitalization Grants for Drinking Water State Revolving Fund
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Hartford did not qualify as a low-risk auditee.

City of Hartford

Schedule of Findings and Questioned Costs

Year ended June 30, 2001

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

- II-A-01 Federal Grant Contract Compliance – During the grant period covering the years ended June 2001 and 2000, the City claimed costs totaling \$107,576 for reimbursement under two federal programs. The City also claimed and was reimbursed \$3,057 for interest expense for a program other than the program for which the interest expense was incurred. In addition, the City claimed costs totaling \$110,823 for reimbursement under both a federal program and a state grant. See audit findings III-A-01 and III-C-01.
- II-B-01 State Grant Contract Compliance – According to a project audit performed by the Iowa Department of Transportation (IDOT), the City was overpaid \$111,423 from a state IDOT grant. The overpayment was a result of the City claiming reimbursement for 100% of all costs instead of the agreed-upon state participation for each of the various costs.

Recommendation – The City should continue to work with the Iowa Department of Transportation to resolve the matter.

Response – We are working with the IDOT to resolve this matter.

Conclusion – Response accepted.

REPORTABLE CONDITIONS:

- II-C-01 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has primary control over each of the following areas for the City:
- (1) Accounting system – performance of all general accounting functions and custody of assets.
 - (2) Receipts – opening and listing mail receipts, collecting, depositing, journalizing, posting and daily reconciling.
 - (3) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (4) Disbursements – performance of purchasing functions, preparation, recording and reconciling.
 - (5) Payroll – preparation and distribution.
 - (6) Long-term debt – recording and reconciling.
 - (7) Data processing – operations, input, initiation of transactions, preparation of source documents and error correction.
 - (8) Evidence of independent reviews is not documented.

City of Hartford

Schedule of Findings and Questioned Costs

Year ended June 30, 2001

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will segregate tasks utilizing existing personnel.

Conclusion – Response accepted.

II-D-01 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquencies were not reconciled monthly.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and any variances should be investigated and resolved in a timely manner.

Response – Utility reconciliations will resume immediately.

Conclusion – Response accepted.

II-E-01 Information Systems – The following weaknesses in the City’s computer-based systems were noted:

The City does not have written policies for:

- requiring password changes because software does not require the user to change logins/passwords periodically.
- requiring system backup tapes to be stored offsite.
- requiring the use of using an antivirus program on computers.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer-based systems. Also, a written disaster recovery plan should be developed.

Response – We will adopt written policies for computer-based systems.

Conclusion – Response accepted.

II-F-01 Monthly Clerk’s Reports – A Clerk’s report documenting the beginning balance, receipts, disbursements, transfers and ending balances for each fund was not prepared monthly. The available report only reported ending balances for each fund.

Recommendation – A Clerk’s report should be prepared each month. The beginning and ending balances should reconcile to the bank balances. The receipts and disbursements should be obtained from the revenue and budget reports. Any variances should be investigated and resolved in a timely manner.

Response – Clerk’s reports will be prepared immediately.

Conclusion – Response accepted.

City of Hartford

Schedule of Findings and Questioned Costs

Year ended June 30, 2001

II-G-01 Sales Tax Refunds – The City did not apply for sales tax refunds for the utility relocation, Vine Street water main and Drake Street water main projects. Claims for refund must be filed with the Iowa Department of Revenue within twelve months after completion of a project.

Recommendation – The City should apply for all sales tax refunds available on a timely basis.

Response – Tax refunds will be applied for, when applicable.

Conclusion – Response accepted.

II-H-01 Missing Financial Records – Certain accounting records for the year ended June 30, 2001 were not readily available, including the following:

- Monthly revenue and budget reports.
- Loan disbursement requisitions for the Drinking Water State Revolving Fund. Copies of these records were later obtained from the Iowa Department of Natural Resources.
- Certain reimbursement requests filed with the Iowa Department of Transportation. Copies of these records were later obtained from the Iowa Department of Transportation.

Recommendation – The City should keep accounting records on file with the Clerk.

Response – The Clerk will account for all City records.

Conclusion – Response accepted.

II-I-01 Financial Records – Numerous adjustments were required to properly record receipts, disbursements and balances. The financial statements have been corrected for these errors. Adjustments were made for the following items:

- Principal and interest on water and sewer revenue notes of \$22,419 and \$30,305, respectively, were incorrectly paid from the General Fund rather than the Enterprise, Water and Sewer Rental Funds which the City uses since the required sinking accounts have not been established.
- Principal and interest repayments of \$102,310 for an interim financing bank loan were incorrectly paid from the Enterprise, Water Fund rather than the Capital Projects Fund.
- Revenue of \$10,909 from the community development block grant was incorrectly posted to the General Fund rather than to the Enterprise, Water Fund.
- Water revenue note proceeds of \$115 were incorrectly posted to the General Fund rather than to the Enterprise, Water Fund.
- Disbursements of \$5,534 and \$1,450 related to an Enterprise, Water Fund project were incorrectly paid from the Capital Projects and Enterprise, Sewer Rental Funds, respectively.

Recommendation – The City should review financial activity each month to determine receipts and disbursements are posted properly.

Response – A monthly review of financial activity will be done for each fund.

Conclusion – Response accepted.

City of Hartford

Schedule of Findings and Questioned Costs

Year ended June 30, 2001

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

**CFDA Number 66.468 Capitalization Grants For Drinking Water State Revolving Fund
Pass-through Agency Number: FS-91-99-DWSRF-018
Federal Award Year: 2001
Environmental Protection Agency
Passed through the Iowa Department of Natural Resources**

III-A-01 Allowable Costs/Cost Principles – According to OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, allowable costs under federal awards may not be included as a cost or used to meet cost sharing or matching requirements of any other federal award.

During the grant period covering the years ended June 30, 2001 and 2000, the City claimed costs of \$107,576 for reimbursement under both the Capitalization Grants For Drinking Water State Revolving Fund program and the Community Development Block Grant - State's Program. In addition, the City claimed \$3,057 of interest expense under the Capitalization Grants for Drinking Water State Revolving Fund program that did not pertain to the project.

Recommendation – The City should contact the Iowa Department of Natural Resources (IDNR) to determine the proper disposition of this matter.

Response – The City will work with the IDNR to resolve.

Conclusion – Response accepted.

III-B-01 Timely Audit and Report Submission – The City did not provide for a single audit to be completed and submitted to the Federal Clearinghouse by March 31, 2002 as required by OMB Circular A-133, paragraph .320(a).

Recommendation – The City should establish procedures to ensure compliance with the audit and report submission requirements for future Federal programs.

Response – Procedures will be initiated to ensure compliance.

Conclusion – Response accepted.

**CFDA Number 14.228 Community Development Block Grant - State's Program
Pass-through Agency Number: 00-WS-077-94
Federal Award Year: 2001
U.S. Department of Housing and Urban Development
Passed through the Iowa Department of Economic Development**

III-C-01 Unallowable Costs – During the grant period covering the years ended June 30, 2001 and 2000, the City claimed costs of \$110,823 under both the Community Development Block Grant – State's Program and a state grant from the Iowa Department of Transportation.

City of Hartford

Schedule of Findings and Questioned Costs

Year ended June 30, 2001

Recommendation – The City should contact the Iowa Department of Economic Development and the Iowa Department of Transportation to determine the proper disposition of this matter.

Response – The matter will be resolved with the appropriate agencies.

Conclusion – Response accepted.

REPORTABLE CONDITIONS:

**CFDA Number 66.468 Capitalization Grants For Drinking Water State Revolving Fund
Pass-through Agency Number: FS-91-99-DWSRF-018
Federal Award Year: 2001
Environmental Protection Agency
Passed through the Iowa Department of Natural Resources**

III-D-01 Segregation of Duties over Federal Receipts and Disbursements – The City did not properly segregate collection, deposit and recording of receipts, including those related to federal programs. In addition, the City did not properly segregate the preparation, recording and reconciling of disbursements, including those related to federal programs. See item II-C-01.

III-E-01 Internal Controls over Compliance – The City did not have adequate controls in place in to ensure amounts claimed under federal programs were allowable costs and were not claimed under other programs.

Recommendation – The City should establish adequate controls over federal programs including the review of all amounts claimed by a knowledgeable person.

Response – Controls will be initiated to review the amounts claimed.

Conclusion – Response accepted.

City of Hartford

Schedule of Findings and Questioned Costs

Year ended June 30, 2001

Other Findings Related to Required Statutory Reporting:

IV-A-01 Official Depositories – A resolution naming the official depository has been approved by the City. The maximum deposit amount stated in the resolution for Citizens Bank was exceeded during the year ended June 30, 2001.

Recommendation – A new resolution in amounts sufficient to cover anticipated balances should be adopted by the Council.

Response – A new resolution is being processed.

Conclusion – Response accepted.

IV-B-01 Certified Budget – Disbursements during the year ended June 30, 2001 exceeded the amounts budgeted in the community protection, home and community environment and policy and administration programs. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in accordance with Chapter 384.18 of the Code of Iowa.

Conclusion – Response accepted.

IV-C-01 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-D-01 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-E-01 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-F-01 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-G-01 Council Minutes – Except as noted, no transactions were found we believe should have been approved in the Council minutes but were not.

Minutes of the Council meetings were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

The Council went into closed sessions on February 20, 2001 and June 12, 2001 but did not document the specific code section under which the City Council went into closed session.

The minutes were not always signed by the Mayor.

City of Hartford

Schedule of Findings and Questioned Costs

Year ended June 30, 2001

Recommendation – Minutes should be published as required by Chapter 372.13(6) of the Code of Iowa. The minutes should reference a specific code section for closed sessions as required by Chapter 21.5 of the Code of Iowa. The minutes should be signed to authenticate the action taken.

Response – The minutes will be published within 15 days and signed by the appropriate City officials. The minutes will include reference to the appropriate code section for closed sessions.

Conclusion – Response accepted.

- IV-H-01 Deposits and Investments – Except as noted above and below, no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

Interest was not credited to the Debt Service Fund as required by Chapter 12C.9(2) of the Code of Iowa.

Recommendation – The City should credit interest to the Debt Service Fund as required.

Response – Interest will be credited to the Debt Service Fund.

Conclusion – Response accepted.

- IV-I-01 Water and Sewer Revenue Capital Loan Notes – The City has not established the water and sewer revenue note sinking accounts required by the water and sewer revenue note resolutions. Also, the City has not established the reserve accounts in the amounts required by the water and sewer revenue note resolutions.

The Enterprise, Sewer Rental Fund had a deficit balance of \$52,976 at June 30, 2001. This appears to violate provisions of the sewer revenue note resolutions which state the notes are payable solely and only from the net earnings of the enterprise activities.

Recommendation – The City should deposit the required amounts in the reserve accounts, establish and make the required transfers to the sinking accounts and ensure the sewer revenue notes are paid solely from the net earnings of the sewer enterprise. The City should investigate alternatives to eliminate the deficit balance in order to return this fund to a sound financial condition.

Response – Reserve and Sinking Funds will be properly maintained. The City has been streamlining the Sewer Fund expenditures as much as possible but it will take some time to reduce the deficit. We will monitor the progress and consider rate increases, if necessary

Conclusion – Response accepted.

City of Hartford

Schedule of Findings and Questioned Costs

Year ended June 30, 2001

IV-J-01 Bank Loan Agreement – During the year, the City entered into a bank loan for \$11,950 to purchase a mower. However, the City did not comply with the provisions of Chapters 384.24A and 384.25 of the Code of Iowa which require certain authorization procedures to be followed, including notice, publication of the intended action and time and place of the meeting.

Recommendation – The City should comply with Chapters 384.24A and 384.25 of the Code of Iowa when entering into bank loans.

Response – Future bank loans will be in compliance with Chapters 384.24A and 384.25 of the Code of Iowa.

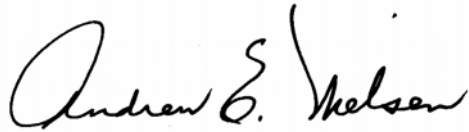
Conclusion – Response accepted.

City of Hartford

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Donna F. Kruger, Senior Auditor II
Michael J. Gentry, Jr., Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and 'N'.

Andrew E. Nielsen, CPA
Deputy Auditor of State