

**CITY OF WATERLOO**  
**AUDITOR OF STATE'S REPORT ON REAUDIT**  
**FOR THE PERIOD**  
**JULY 1, 1999 THROUGH JUNE 30, 2000**

0120-0054-T00Z

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**City of Waterloo**

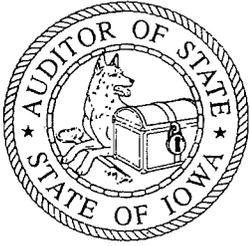
**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Council</b>		
John Roof	Mayor	2002
Harold Getty	Mayor Pro Tem	2004
John Murphy	Council Member - 1 <sup>st</sup> Ward	2002
Jerry Anders	Council Member - 3 <sup>rd</sup> Ward	2002
Barb Krizek	Council Member - 5 <sup>th</sup> Ward	2002
Dr. William Gronen	Council Member - At-Large	2002
Scott Jordan	Council Member - 2 <sup>nd</sup> Ward	2004
Deborah Berry	Council Member - 4 <sup>th</sup> Ward	2004

**City Officials**

Bruce Meisinger (Resigned)	Finance Manager	6/30/2000
Michelle Weidner, CPA (Appointed February 1, 2001)	Chief Financial Officer	Indefinite
Nancy Eckert	City Clerk	2002
Eric Thorson	City Engineer	2002
James E. Walsh	City Attorney	2002

**City of Waterloo**



OFFICE OF AUDITOR OF STATE  
STATE OF IOWA

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Independent Auditor's Report on Reaudit

To the Honorable Mayor and  
Members of the City Council:

We received a request to perform a reaudit of the City of Waterloo under Chapter 11.6(4) of the Code of Iowa. As a result, we reviewed the audit report and workpapers of the City's independent auditing firm for the fiscal year ended June 30, 2000. Based on that review and other information provided to and obtained by us, we determined that a partial reaudit was necessary in order to further investigate specific issues identified in the request for reaudit or through our preliminary review. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Waterloo for the period July 1, 1999 through June 30, 2000. We also performed procedures for selected transactions for the years ended June 30, 1994 through June 30, 1999 and inquired and performed procedures for certain items to determine current practices applicable to the year ended June 30, 2001. The procedures we performed are summarized as follows:

1. We inquired about the City's procedures for identifying City official and employee owned businesses and obtained a listing of known business affiliations with City officials. We reviewed vendor listings for disbursements to these businesses and related supporting documentation.
2. We performed the following procedures pertaining to City property acquisitions and/or sales:
  - a. We reviewed Council minutes for discussion or approval of City property acquisitions and/or sales during the period July 1, 1999 to June 30, 2000.
  - b. We contacted the Black Hawk County Recorder's office and obtained a listing of City property transactions for the period July 1, 1998 through August, 2001, including parties to the transactions. We reviewed the listing for any properties sold to or purchased by City officials or employees.
  - c. We obtained and reviewed an account history printout for legal services for the period July 1, 1998 through June 30, 2000 to determine whether services obtained from firms other than the City Attorney appeared substantial.
3. We performed the following procedures pertaining to the City's street reconstruction program and overlay projects:
  - a. We reviewed certain documentation included in the City's contract files for street reconstruction and overlay projects for the years ended June 30, 1994 through June 30, 2001, including:

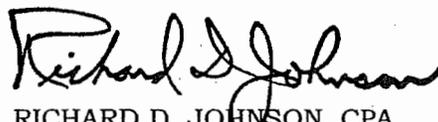
- Plan holder logs
  - Bid opening tabulation sheets
  - Prime contractor bid proposals, including minority and/or women business enterprise pre-bid contract information forms
  - Prime contract and awarding of contract documents
  - Change or extra work orders
- b. We interviewed City personnel to obtain information regarding the street reconstruction process, including how subcontractors are selected; the City's involvement in subcontractor selection; considerations in selecting asphalt versus concrete for street reconstruction; life expectancies of asphalt versus concrete and reconstruction versus overlay work, including maintenance costs for each; and use of life cycle costing in the City's street reconstruction program.
- c. We interviewed Iowa Department of Transportation personnel to obtain additional information on differences and possible preferences between asphalt and concrete, other potential bidders in the area for asphalt and concrete work and what constitutes reasonable quantity adjustments.
- d. We reviewed the City's compliance with statutes pertaining to proper bid letting and awarding of contracts for the FY2000 and FY1999 street reconstruction projects.
- e. We reviewed the City's Minority and Women Business Enterprise contract compliance program (MBE/WBE) policies and reviewed compliance with those policies for the FY2001, FY2000 and FY1999 street reconstruction contracts.
- f. We reviewed the City's policies and procedures for approving contract change and extra work orders and tested compliance with those policies for the FY1994 through FY2001 street reconstruction projects.
- g. We inquired about the City's policies and procedures related to quantity adjustments, including how planned quantities are estimated and the level of involvement of City inspectors in approving quantity adjustments during the reconstruction process. We also reviewed final quantity adjustments for the FY1994 through FY2000 street reconstruction projects.
- h. We reviewed documentation provided to the City Council for progress contract billings on the street reconstruction projects.
4. We reviewed the City's policies for use of City-owned credit cards and we reviewed certain charges to those cards for propriety and proper supporting documentation.
5. We reviewed the City's policies for reimbursement of travel expenses and we reviewed certain travel expense transactions for supporting documentation and propriety.
6. We reviewed the budget and the propriety of related expenditures for the Mayor's Youth Initiative program and the Waterloo Human Rights Commission.

7. We inquired about the City's procedures for accounting for the use of donor-restricted gifts and reviewed selected contributions for compliance with restrictive covenants, if any.
8. We performed the following procedures pertaining to the City's budget:
  - a. We inquired about City budget practices and reviewed budget documents for FY2001 and FY2000.
  - b. We made inquiries and reviewed information specifically pertaining to a \$1,400,000 error in budgeted revenues for FY2001.
  - c. We reviewed budget to actual information for Special Revenue Funds.
9. We reviewed fund transfers for Council approval and propriety.
10. We reviewed revenue bond resolutions for compliance with restrictive covenants.
11. We reviewed correspondence between the City and the U.S. Department of Transportation, Federal Aviation Administration, regarding transfers of Federally-owned land at the Municipal Airport.
12. We reviewed the Articles of Incorporation and by-laws for the Friends of the Waterloo Public Library, Inc. to determine proper reporting.
13. We reviewed selected statutory compliance requirements, including the Council minutes requirements of Chapter 380.7 of the Code of Iowa; the publication requirements of Chapter 372.13(6) of the Code of Iowa; the utility rates requirements of Chapters 384.84 and 388.6 of the Code of Iowa; and the budget requirements of Chapter 384.20 of the Code of Iowa.

Based on the performance of the procedures described above, we have various recommendations for the City. Also, certain instances of non-compliance with the Code of Iowa were noted. Our recommendations and the instances of non-compliance are described in the Detailed Findings of this report. Unless reported in the Detailed Findings, no other items of non-compliance were noted during the performance of the specific procedures listed above.

The procedures described above are substantially less in scope than an audit of financial statements made in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on financial statements. Accordingly, we do not express an opinion. Had we performed additional procedures or had we performed an audit of the City of Waterloo, additional matters might have come to our attention that would have been reported to you.

We would like to acknowledge the assistance extended to us by personnel of the City of Waterloo. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
RICHARD D. JOHNSON, CPA  
Auditor of State

September 6, 2001

**City of Waterloo**

## **Detailed Findings**

City of Waterloo

Detailed Findings

July 1, 1999 through June 30, 2000

(A) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Black Hawk Plumbing, owned by John Rooff, Mayor	Plumbing services	\$ 247
Scott's Electric, owned by Scott Jordan, Council Member	Electrical work – Softball Complex, per bid	4,988
	Electrical work – Exchange Park	3,489
	Electrical work – Miscellaneous	454
Nancy Eckert, City Clerk	Replenish petty cash	889
Black Hawk County Abstract, part-owned by James E. Walsh, City Attorney	Abstract work	9,631
Community National Bank, stock held by James E. Walsh, City Attorney, and Councilpersons Scott Jordan and Dr. William Gronen	Banking services for the Waterloo Housing Partnership Program	34,763
Community National Bank, stock held by James E. Walsh, City Attorney, and Councilpersons Scott Jordan and Dr. William Gronen	Purchase of two parcels of City property	20,001

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Black Hawk Plumbing do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year.

In accordance with Chapter 362.5(4) of the Code of Iowa, transactions with Scott's Electric for electrical work at the softball complex do not appear to represent a conflict of interest since the transaction was entered into through competitive bidding.

The remaining transactions with Scott's Electric may represent a conflict of interest as defined in Chapter 362.5 of the Code of Iowa since the total transactions exceeded \$1,500 during the fiscal year and the transactions were not competitively bid.

The transactions with the City Clerk do not represent a conflict of interest since the purpose was to replenish petty cash.

In accordance with Chapter 362.5(9) of the Code of Iowa, the transactions with Black Hawk County Abstract do not appear to represent a conflict of interest since the City Attorney has less than 5% ownership interest in the company.

The transactions with Community National Bank for the Housing Partnership program do not appear to represent a conflict of interest since the bank is selected by the borrower and the City has no involvement in this selection.

In accordance with Chapter 362.5(9) of the Code of Iowa, the transactions with Community National Bank for the purchase of City property do not appear to represent a conflict of interest since the City Attorney and Council persons have less than 5% ownership in the bank. Although the City held a public hearing on disposition of the property as required by Chapter 364.7 of the Code of Iowa, the City did not seek independent appraisals or competitive bids on the property prior to disposition.

During fiscal years ended June 30, 1999 and June 30, 2000, the City did not have a process in place for identifying City Official and employee-owned businesses.

Recommendation – The City should consult independent legal counsel to determine the disposition of the potential conflicts of interest.

For the petty cash replenishments, the City should issue the checks to “The City of Waterloo” rather than in the City Clerk’s name. This would avoid the appearance of a related party transaction and would strengthen controls over petty cash.

For the sale of property, the City should, as good business practice, obtain independent appraisals and competitive bids for future sales of real property.

The City should establish procedures for identifying City Official and employee-owned businesses to facilitate compliance with Chapter 362.5 of the Code of Iowa.

(B) Street Reconstruction and Overlay Projects – The City annually solicits bids from prime contractors for its major street reconstruction and overlay projects. Street reconstruction projects involve the complete removal of street material, down to the rock bed, and replacement with either asphalt or concrete. Overlay projects outside the reconstruction program involve only the use of asphalt. It is the City's practice to solicit bids for both asphalt and concrete on the reconstruction projects.

Based on a review of contract files, the following prime contractor bids were received on the street reconstruction projects since 1994:

Year Ended June 30	Name of Prime Contract Bidder	Bid Amount
2001	Aspro, Inc & Subsidiaries – Asphalt	\$ 2,857,793
	Cedar Valley Corp. – Concrete	3,040,100
	Cunningham Construction - Concrete	3,330,442
2000	Aspro, Inc & Subsidiaries – Asphalt	2,999,049
	Cedar Valley Corp. – Concrete	3,093,603
1999	Aspro, Inc & Subsidiaries – Asphalt	3,656,441
	Cedar Valley Corp. – Concrete	3,749,857
	Peterson Contractors, Inc. - Concrete	3,792,944
1998	Aspro, Inc & Subsidiaries – Asphalt	3,444,520
	Cedar Valley Corp. – Concrete	3,498,106
1997	Aspro, Inc & Subsidiaries – Asphalt	2,987,709
	Cedar Valley Corp. – Concrete	2,999,697
	Concrete Foundations - Concrete	3,035,697
1996	Aspro, Inc & Subsidiaries – Asphalt	2,523,351
	Cedar Valley Corp. – Concrete	2,587,767
1995	Aspro, Inc & Subsidiaries – Asphalt	3,186,206
	Cedar Valley Corp. – Concrete	3,314,510
	Concrete Foundations - Concrete	3,372,573
1994	Aspro, Inc & Subsidiaries – Asphalt	4,795,999
	Cedar Valley Corp. – Concrete	4,830,448

Based on our review of the contract files and bid documents for the overlay projects, Aspro Inc. & Subsidiaries has been the only bidder since 1994.

Our review of the City's bid letting process for street reconstruction and overlay projects found no noncompliance with statutes pertaining to proper bidding and awarding of contracts.

The City annually selects the reconstruction contractor based on the lowest bid received (the lowest current cost). Accordingly, since 1994, the prime contractor selected has been Aspro, Inc & Subsidiaries, and the material used in the reconstruction projects has been asphalt. While the low bid represents the lowest current cost, it may not be representative of the life cost of the street reconstruction project. Lowest current cost does not consider the future maintenance costs of asphalt versus concrete over the life expectancy of each type of surface material. The City has not maintained records on the

life cost of its streets and, accordingly, does not have a process in place to utilize life cycle costing methods to determine the overall lowest cost for each type of material.

### Sub-Contracts

The prime contractor is responsible for hiring the subcontractors they will use on each reconstruction and overlay project, and the prime contractor is responsible for the work completed by the subcontractors. The prime contractors request bids from subcontractors, including minority and women based enterprises (MBE/WBE), and the City's involvement is limited to the prime contractor's use of minority subcontractors as discussed below.

Based on a review of the subcontractors used on overlay projects, Black Hawk Plumbing, owned by the Mayor, does not appear to have been a subcontractor on any of these projects. Black Hawk Plumbing was a subcontractor on all street reconstruction projects since 1994. Since the prime contractor has sole responsibility for hiring the subcontractors, it does not appear the City had any involvement in contracting with this company.

### MBE/WBE Process and Compliance

The City has established a program, Minority Business Enterprise and Women Business Enterprise (MBE/WBE) Contract Compliance Program of 1986 (Compliance Program), to provide MBE and WBE contractors opportunity to participate in the bid process for contract and subcontract work on City contracts. According to the City's policy, the purpose of the Compliance Program is not to eliminate bonafide contractors, subcontractors, suppliers or vendors from bidding on City contracts, but to serve as a stimulus to help local MBE and WBE contractors grow and become mainstream contractors, subcontractors, suppliers and vendors.

The Compliance Program requires numerical projections regarding utilization of MBEs and WBEs as subcontractors, vendors and suppliers in the performance of contracts awarded by the City and compliance is monitored by a City Contract Compliance Officer. Specifically, the Program goals are as follows:

- A goal of at least 5% for MBE participation on all City funded construction projects that are estimated at \$100,000 or more, and projects under \$100,000 where applicable at the Contract Compliance Officer's discretion.
- A goal of at least 10% for MBE participation on all federally funded (in part or in total) projects estimated at \$100,000 or more.
- A goal of at least 1% for WBE participation on both City and federally funded projects.

As stated in the City's policy, a goal of the Compliance Program is a flexible numerically expressed objective which contractors are required to make a "good faith effort" to meet. A "good faith effort" is defined in the City's policy as including, but not limited to, the following:

- "Prime contractors shall send solicitation letters to appropriate MBE/WBE (those certified in a directory prepared by the City Contract Compliance Officer) at least ten (10) working days prior to bid date. Letters should identify specific items to be subcontracted.
- If a prime contract bidder is unable to identify MBE/WBE firms to perform portions of the work, the City Contract Compliance Officer should be contacted for assistance.

- Prime contract bidders may solicit MBE/WBE proposals by telephone or personal interviews, but all such contacts shall be confirmed by Certified Mail, or subcontract bid request forms.”

A notice to proceed on any project with goals may not be issued until the City Contract Compliance Officer determines the low bidder has used good faith efforts to comply with the Program.

The City’s goals appear to be in compliance with Federal requirements pertaining to participation by disadvantaged business enterprises in Department of Transportation programs (49 CFR, Part 21). Federal requirements allow governments to set goals consistent with their own circumstances and require a good faith effort to meet these goals.

We reviewed the City’s compliance with the Contract Compliance Program for the FY2001, FY2000 and FY1999 street reconstruction programs and found the following percentages of MBE/WBE participation:

Year Ended June 30	MBE Participation	WBE Participation
2001	0%	1%
2000	.065%	1%
1999	.8%	.14%

Although the goals defined in the Compliance Program were not always met for each contract, the contract files included documentation that the Compliance Officer reviewed each primary contract bidder’s compliance with the Compliance Program, including whether a good faith effort was documented. We noted documentation of post-bid interviews conducted by the Compliance Officer at which the primary bidder submitted documentation of the MBE/WBE contractors solicited for bids, responses received, if any, from the MBE/WBE contractors and bids received on various bid items included in the contract. We also noted the Compliance Officer’s documentation explaining why a primary bidder did not accept certain MBE/WBE subcontractor bids. For example, the MBE/WBE bid may have been higher than bids received from non-minority subcontractors, or the primary contract bidder may have felt it could do the work at a lower cost and, therefore, decided not to subcontract a particular item. The Compliance Officer concluded that good faith effort was met for each contract reviewed.

Based on our review of Compliance Program documentation for the FY2001, FY2000 and FY1999 street reconstruction programs, it appears the City has properly documented that a “good faith effort” was made by the primary contract bidders.

Change Orders and Final Quantity Adjustments

Change or extra work orders are required when work is done during the course of a project that was unknown at the time of design. Change orders are prepared by the Engineer’s Office and presented to the City Council for approval. The City’s policy requires all change orders exceeding \$20,000 to be approved by the Council. The City represented that a new resolution was adopted increasing the cut-off to \$50,000. However, no documentation could be located to support this increase.

We reviewed all change orders for the FY1994 through FY2001 street reconstruction and overlay projects for proper Council approval. We noted that the contract files did not include copies of all the change orders. In addition, we noted three change orders exceeding \$20,000 that did not have proper Council approval.

Quantities needed for various bid items commonly vary from the original contract. Throughout the construction phase, project inspectors review and approve quantity changes. The existing subgrade material is tested by City Engineer inspectors prior to removal to determine whether the material is unsuitable. Quantities needed to replace the subgrade material removed are determined by measuring the area to be filled. Inspectors also use delivery tickets, scale tickets for recycle material, scale tickets for special backfill, subcontractor project orders and aggregate orders to verify quantities used. The difference between the planned quantity and the final quantity is determined for each bid item and unit bid prices are applied to the change in each item to determine the total increase or decrease in the contract due to bid item quantity adjustments.

Based on inquiry of City personnel, quantity adjustments for subgrade material are needed whether asphalt or concrete is used as a surface material.

The change in cost due to the quantity adjustment is not handled through the regular change order process which requires Council approval prior to an item exceeding a bid item by \$20,000. Instead, the quantity changes appear on the progress billings periodically presented to the Council for payment. Based on a review of the progress billings provided to the Council for approval, the increases in cost due to quantity changes are not readily apparent.

Following are the contract amounts, changes orders and final quantity adjustments for the FY1994 through FY2000 street reconstruction projects. Information for the FY2001 street reconstruction project is not included since final quantity adjustments are not yet available.

FY of Street Reconstruction Program	Contract Amount	Change Orders	Final Quantity Adjustment	Final Contract Payment	Percentage of Final Quantity Adjustment to Final Contract Payment
FY2000	\$2,999,049	13,762	215,102	3,227,913	6.66%
FY1999	3,656,441	14,014	311,579	3,982,033	7.82
FY1998	3,444,520	170,067	44,211	3,658,798	1.21
FY1997	2,987,709	136,911	185,043	3,310,927	5.59
FY1996	2,523,351	57,293	(40,046)	2,539,598	(1.58)
FY1995	3,186,207	24,172	431,539	3,641,918	11.85
FY1994	4,795,999	43,244	579,538	5,418,781	10.69

Black Hawk Plumbing provided us the amounts it was paid as subcontractor for the street reconstruction projects. The total payments of approximately \$861,000 under these seven contracts represents approximately 3.3% of the final contract payments, with payments under any individual contract being less than 5% of the final contract payment.

Recommendation – The City should research life cycle costing for asphalt and concrete and consider to the most cost efficient surface material to be applied. When bid prices are

within reasonable limits, the City should consider awarding bids to other bidders to help ensure adequate competition in the selection of City contractors.

The Council should approve charge orders in compliance with policies and copies of all change orders should be maintained in the contract files. In addition, quantity adjustments should be made through the charge order process with the Council providing approval in accordance with the change order policies.

- (C) Credit Card Policy – On March 24, 1994, the City established policies governing the use of City-owned credit cards as part of their travel policy. The policy states that a credit card may be utilized while traveling on City business and specifically allows charges for the following purchases, “fuel, minor vehicle incidental expense, towing or starting service or minor repairs, car rentals with prior justification, meals or lodging.”

Based on our review of credit card purchases during fiscal 1999 and 2000, we noted several purchases for items outside the City’s policy including over \$29,000 in airfare charges and approximately \$20,700 for computer software, computer hardware, computer accessories, televisions, video recorders, and other miscellaneous items. In addition, many of the purchases, primarily the airfare, were not properly supported by vendor invoices (see item (D) below).

Recommendation – In addition to the recommendations pertaining to use of credit cards included in the City’s fiscal 2000 audit, the City should enforce its policy regarding use of the City’s credit card for purchases or modify policies to allow for such purchases, if desired. Any policy should be modified to include the types of expenses allowed to be charged, the dollar limit of allowable expenses and the documentation required to be submitted to support the expense incurred and to allow authorization for payments.

In addition, the city should account for products purchased to ensure the products are properly accounted for and are used for City purposes.

- (D) Travel Expenses –The majority of travel expenses for City officials and employees are charged to the City’s credit card, including certain personal expenses that are required to be reimbursed to the City.

In addition to the findings noted in the City’s fiscal 2000 audit report, we noted the following during our review of travel expenses paid by the City during fiscal 1999 and 2000:

- a. The City’s travel policy disallows reimbursement for personal phone calls, entertainment and alcoholic beverages. We noted approximately \$600 in phone calls charged to hotel bills for several City employees for which there was no documentation to determine whether the calls were for personal or business reasons. We also noted less than \$50 in movie rentals charged to hotel bills and, in one instance, alcoholic beverages.
- b. The City’s travel policy sets limits on meal reimbursements for each day of travel. We noted approximately \$100 in meal expenses charged to the City’s credit card that appear to be in excess of the daily allowance.
- c. Approximately \$35,000 in travel expense charges to the City’s credit card that were not properly supported by vendor receipt, including \$29,000 in airfare charges (see item (C) above).
- d. Approximately \$1,500 in meal expenses charged to the City’s credit card for City employees traveling out of State which appear to include meals for more than one person and for which the documentation was not sufficient to determine whose meals were included in the cost paid by the City. In some cases, it appeared that meals for spouses and other non-City individuals may have been included in the expense.

- e. Approximately \$1,300 in airfare which appears to be for non-City individuals who accompanied City officials during out of state trips.
- f. Approximately \$220 in airfare for spouses of City Officials which was not reimbursed until September 2001.
- g. Approximately \$300 in meals at local restaurants for visiting delegates/guests.
- h. Worldclub membership costing \$300 annually providing special privileges at airports.
- i. Approximately \$40 in cell phone charges by the Mayor's wife which was not reimbursed until September 2001. Per inquiry, these charges were the result of an error by U.S. Cellular who incorrectly charged the Mayor's wife's calls on her personal cell phone to the Mayor's account with the City.
- j. On June 18, 2001, the Mayor reimbursed the City \$784.43 for personal expenses incurred between July 1999 and January 2001.

Recommendation – The City's credit card policy should be modified to prohibit the use of City-owned credit cards for personal expenses, except where such use is incidental to a public purpose. The policy should provide specific guidelines on those limited instances where incidental personal use may be permissible. Also, the City should require prior reimbursement, when practical, for spouse airfare and timely reimbursement of any other personal expenses incurred during travel.

The City's travel policy should be modified to require proper documentation for expenses, including sufficient information to determine whether the expense complies with City policies (i.e., personal phone calls, non-City individual(s) present at meals). The City should monitor daily expense allowances and require timely reimbursement for expenses in excess of these amounts.

The City should evaluate and document whether expenditures such as airfare for non-employees, membership providing special privileges at airports and meals for visiting delegates/guests and other non-City individuals meet public purpose criteria prior to authorizing further payments.

- (E) Mayor's Youth Initiative Program – Based on inquiry of City personnel, the Mayor's Youth Initiative program was implemented in 1996 to provide youth with skills needed to develop into productive taxpayers. Based on our review of the fiscal 2000 expenditures, it appears the majority of funds in the program were provided to various outside agencies based on applications submitted. The funds were also used within the City for a midnight basketball and a summer jobs program, both operated by the City.

The Mayor appointed a committee, consisting of the Police Chief, the City Clerk, and the Finance Manager (now Chief Financial Officer), to review applications submitted by outside agencies and recommend funding for appropriate programs. Some of the agencies receiving funding in fiscal 2000 included Black Alliance, Junior ROTC and YWCA. Expenditures under the midnight basketball program included salaries for the program coordinator and referees and expenditures for recreation equipment, basketball shorts, shirts, hats, trophies, food and beverages, a disk jockey and laundry. The summer jobs program included hiring young people to coordinate recreational and craft activities at parks within the City. Expenditures were made in fiscal 2000 for salaries, transportation, and supplies, including, craft materials, balls and games for the activity center, recreation equipment, food, balloons, and helium.

The Mayor's Youth Initiative program was not formally established through Council action. The intent of the program and its public purpose have not been documented by the

Council and no specific, written guidelines have been established to determine allowable and proper use of the funds based on the program's intent or public benefit. In addition, no formal guidelines/criteria exist for appropriating funds to outside agencies. The City does not require outside agencies receiving funding to document and report to the City the proper use of the funds provided in accordance with Council's intent.

Recommendation – The City should establish guidelines controlling the use of public funds under this program, including the intent and public purpose served. In addition, the City should require and maintain documentation that supports the public purpose propriety of disbursements to outside agencies, including quarterly or annual reports of how the funds were spent.

- (F) Donations – A local business in Waterloo has represented that they donated an outdoor storage canopy to the City, including labor and expenses to collapse and transport the canopy to City property and \$25,000 to reconstruct the canopy. The City represented that, due to the high cost to reconstruct, it decided not to use the canopy. According to the City, the canopy is currently stored on City property on Black Hawk Street. Based on information provided by the City, it appears the \$25,000 donation was used to dismantle the canopy.

Specific information from the donor pertaining to allowable use of the \$25,000 donation was not available and, accordingly, we were unable to determine the propriety of the use of these funds.

Recommendation – The City should pursue obtaining specific information from the donor regarding the donor's intent for use of the donated money and property.

- (G) Revenue Bond Compliance – Section 16(d) of the City's sewer revenue bond covenants requires the City to maintain a Sewer Improvement Fund. This section states in part, "The minimum amount to be deposited in the Improvement Fund each month shall be \$20,000; provided, however, that when the amount of said deposits in said fund shall equal or exceed \$450,000, no further monthly deposits need be made...." The City has not established an improvement fund as required.

Based on review of the City's Sanitary Sewer Fund unreserved retained earnings balance at June 30, 2000, it appears that although the required Improvement Fund was not established, a surplus still remains in the Sanitary Sewer Fund. Accordingly, transfers from this fund to the General Fund appear to be in compliance with revenue bond covenants and other statutes.

Recommendation – The City should review the Improvement Fund requirements of the revenue bond covenants and take appropriate action to ensure compliance.

- (H) Legal Services – During the year ended June 30, 2000, the City paid \$1,000 per month to the City Attorney as a retainer for his services. Per inquiry of City personnel, this retainer covered the Attorney's attendance at weekly Council meetings and his attendance at special committee and/or special Council meetings.

We reviewed legal expenses paid during fiscal 2000 and noted approximately \$87,000 paid to the City Attorney's law firm for services such as legal advice on planning and zoning questions, traffic codes and ordinance codes, and law suits against the City that were not handled through the City's insurance company. We also noted approximately \$4,068 paid to other individuals or firms for miscellaneous legal services for the Department of Human Rights.

The City has no written agreement with the City Attorney specifying the services covered by the monthly retainer.

Recommendation – The City should enter into a written agreement with the City Attorney specifying the services covered within the retainer.

- (I) Friends of the Waterloo Public Library – According to the Articles of Incorporation of the Friends of the Waterloo Public Library, Inc., (Corporation) the Corporation was organized exclusively for charitable and educational purposes in support of the Waterloo Public Library.

Based on our review of the Articles of Incorporation, the Bylaws of the Friends of the Waterloo Public Library and Governmental Accounting Standards Board Statement Number 14 (GASB 14), the Corporation appears to meet the criteria for inclusion as a component unit of the City of Waterloo. The financial transactions and balances for the Corporation have not been included in the City's financial statements.

Recommendation – The City should review the proper reporting of the transactions and balances of the Corporation during the next audit of the City.

- (J) Council Minutes – Minutes of the Council meetings were not signed in accordance with Chapter 380.7 of the Code of Iowa. Also, although minutes of Council proceedings were published, they did not contain a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The minutes should be signed and published, as required.

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City of Waterloo

Staff

This reaudit was performed by:

Marlys K. Gaston, CPA, Manager  
Steven M. Nottger, CPA, Manager  
John G. Vanis, CGFM, Senior Auditor  
Julie J. Lyon, CPA, Staff Auditor  
Jennifer R. Gray, CPA, Assistant Auditor



Warren G. Jenkins, CPA  
Chief Deputy Auditor of State