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Rob Sand
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NEWS RELEASE

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FOR RELEASE

August 30, 2022

Auditor of State Rob Sand today released a reaudit report on the City of Waterloo for the period July 1, 2012 through June 30, 2018. The reaudit was performed at the request of petitioners pursuant to Section 11.6(4)(a)(3) of the *Code of Iowa*. The request submitted to the Office of Auditor of State asked for a reaudit of the year ended June 30, 2018. However, based on the nature of the concerns presented, the reaudit also covered items applicable to the period July 1, 2012 through June 30, 2017.

The reaudit was requested due to concerns regarding City operations, including proper accounting for certain City revenues and expenditures, compliance with spending provisions of bond proceeds, compliance with certain City contracts, and sale of land to Grand Investment LLC.

No items of non-compliance were identified during the performance of the reaudit. However, Sand reported Animal Control and Code Enforcement expenses are accounted for by the City as part of the Sanitation Fund which is budgeted for as a Proprietary Enterprise fund. Because sufficient Animal Control fees and Code Enforcement collections are not sufficient to offset the related expenses, sanitation fees are used to pay the excess costs of these functions. Each Proprietary Enterprise fund established by a City should recover their costs. As a result, Sand recommended the City consider whether including the Animal Control and Code Enforcement financial transactions in the General Fund is more appropriate.

A copy of the reaudit report is available for review on the Auditor of State's website at [Audit Reports - Auditor of State](#).

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CITY OF WATERLOO
AUDITOR OF STATE'S REPORT ON REAUDIT FOR THE PERIOD
JULY 1, 2012 THROUGH JUNE 30, 2018

Table of Contents

	<u>Page</u>
Officials	3
Auditor of State's Report on Reaudit	4-5
Background Information	7-8
Detailed Findings and Additional Information Regarding Concerns Presented in Petition	8-17
Staff	18

City of Waterloo

Officials

(As of July 1, 2017)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Quentin Hart	Mayor	Jan 2018
Tom Powers	Council Member – 1 st Ward	Jan 2018
Bruce Jacobs	Council Member – 2 nd Ward	Jan 2020
Patrick Morrissey	Council Member – 3 rd Ward	Jan 2018
Jerome Amos	Council Member – 4 th Ward	Jan 2020
Rob Welper	Council Member – 5 th Ward	Jan 2018
Tom Lind	Council Member – At-Large	Jan 2018
Steven Schmitt	Council Member – At-Large	Jan 2020
Michelle Weidner, CPA	Chief Financial Officer	Indefinite
Kelley Felchle, CMC	City Clerk	Dec 2017
David Zellhoefer	City Attorney	Indefinite

(After January 1, 2018)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Quentin Hart	Mayor	Jan 2020
Margaret Klein	Council Member – 1 st Ward	Jan 2022
Bruce Jacobs	Council Member – 2 nd Ward	Jan 2020
Patrick Morrissey	Council Member – 3 rd Ward	Jan 2022
Jerome Amos	Council Member – 4 th Ward	Jan 2020
Christopher Shimp	Council Member – 5 th Ward	Jan 2022
Sharon Juon	Council Member – At-Large	Jan 2022
Steven Schmitt	Council Member – At-Large	Jan 2020
Michelle Weidner, CPA	Chief Financial Officer	Indefinite
Kelley Felchle, CMC	City Clerk	Dec 2019
Martin Peterson	City Attorney	Indefinite



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Auditor of State'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 (City) in accordance with Section 11.6(4)(a)(3) of the *Code of Iowa*. As a result, we performed a review of the audit report for the year ended June 30, 2018 and the workpapers prepared by the City's Certified Public Accounting (CPA) firm to determine whether the CPA firm addressed any or all of the specific issues identified in the request for reaudit during the annual audit of the City. Based on this review and our review of the preliminary information available, we determined a partial reaudit was necessary to further investigate specific issues identified in the request for reaudit. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City for the period July 1, 2012 through June 30, 2018.

Based on a review of relevant information and discussions with City officials and personnel, we performed the following procedures:

1. Obtained and reviewed various City policies to determine whether they were sufficient and whether certain City transactions were in compliance with the established City policies.
2. Obtained and reviewed documentation related to certain revenue and expenditures to determine whether they were properly supported and recorded in the City's ledgers.
3. Obtained and reviewed documentation for certain fee increases to determine propriety.
4. Reviewed City records to determine allowability of adjustments between the Special Revenue, Road Use Tax Fund, and the General Fund.
5. Reviewed the City's process for approving bills to determine whether proper control procedures were in place.
6. Obtained and examined documentation for the City's general obligation bonds to determine compliance with arbitrage agreements and tax exemption certificates.
7. Reviewed purchases of equipment to determine if City policies were properly followed.
8. Reviewed procedures for merging the Airport Area and Logan Urban Renewal and Redevelopment Plans and determined if the City was in compliance with Chapter 403 of the Code of Iowa.
9. Reviewed City purchases of property within the City's Tax Increment Financing districts to determine propriety.
10. Obtained and reviewed accounting records for storm water fees collected by the City and determined and documented the City's plans to use the fees.
11. Obtained and reviewed City records and the contract between the City and LK Holdings Waterloo, LLC to determine compliance with contract terms.
12. Reviewed documentation associated with the United States Conference of Mayors Childhood Obesity Prevention grant and the City's process to award funds to subrecipients to determine propriety.
13. Reviewed the sale of property to Grand Investments LLC to determine propriety.

14. Obtained and reviewed hours charged by information technology personnel for departmental services to identify any risk areas.

No items of non-compliance were identified during the performance of the specific procedures listed above. The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of the City, 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 the officials and personnel of the City during the course of the reaudit.



ROB SAND
Auditor of State

August 15, 2022

City of Waterloo

City of Waterloo

For the period July 1, 2012 through June 30, 2018

Background Information

We received a petition to conduct a reaudit of the City of Waterloo for fiscal year 2018. The request detailed specific concerns regarding the propriety of certain financial transactions, including:

- the propriety of the City's handling of certain revenues related to forfeitures, vehicle sales, impoundments, scrap sales, animal control fees, Code enforcement citations, and utility franchise fees,
- the propriety of certain fee increases,
- records of storm water fees and fund balances associated with sewer and storm water improvement project funds,
- use of funds from the United States Conference of Mayors Childhood Obesity Prevention grant,
- collection and reporting of tax increment financing funds as well as purchases by the City of property in the City's Urban Renewal Areas, and
- use of the Information Department staff's time.

The request also included concerns regarding the City's budgeting and accounting practices, including:

- adjustments between departments, unfilled positions, and the budgeting for emergency repairs and
- where incoming funds, such as log sales, are deposited.

In addition, the request included other questions or concerns which are addressed in annual audits of the City, including:

- approval of bill payments by the City Council,
- compliance with terms of the contract between the City and LK Holdings Waterloo, LLC,
- the City's indebtedness for general obligation bonds and compliance with arbitrage agreements and tax exemption certificates,
- the City's bidding process for equipment purchases,
- street repairs for areas connected to State highways passing through the City, and
- fire station staffing.

As a result of the request, we performed a review of the City's audit report and workpapers prepared by the City's independent auditors to determine whether a complete or partial reaudit of the City should be performed. As a result of this review, we determined it was necessary to perform reaudit procedures for all but the concerns regarding the City's budgeting process, including adjustments between departments, unfilled positions, and the budgeting for emergency repairs, the approval of bills by the City Council and the use of federal funds which were sufficiently reviewed by the City's independent auditors. We also did not perform reaudit procedures for the issue of staffing at fire stations which is a management decision and not an audit issue. In addition, oversight on street repair of state highways was not reviewed because the Iowa Department of Transportation approves proposed projects on state highways. The reaudit procedures were performed for the period July 1, 2012 through June 30, 2018 as applicable to each concern.

No items of non-compliance were identified related to the specific concerns presented with the reaudit request. However, in some instances, the information included in the concerns presented was not accurate or a question was posed. As a result, additional information obtained while performing the

procedures is included in the following section of this report along with the unedited concern/question provided to us. While the reaudit procedures performed addressed the concerns presented, additional procedures were not performed during our fieldwork for the reaudit. Had we performed additional procedures, additional matters might have been identified and included in this report.

Detailed Findings

And

Additional Information Regarding Concerns Presented in Petition

Concerns regarding the propriety of certain financial transactions:

- **Animal Control** – Funded by sanitation/sewer fees. Wouldn't this be funded by the General Fund so it is subject to taxes rather than a department that can just raise the fee to enhance their budget?

Auditor's Response - Based on the City's Chart of Accounts, the Proprietary Enterprise funds include the Sanitary Sewer Fund, the Storm Water Fund, the Sanitation Fund, the June 15 Sewer General Obligation (GO) Bond Fund, and the June 17 Sewer GO Bond Fund. We determined financial transactions associated with Animal Control are recorded within the City's accounting system in Fund 525, the Sanitation Fund. As a result, the City budgets Animal Control as a proprietary fund.

We also determined the fiscal year 2020 expenses recorded in the City's accounting system for Animal Control exceeded the related revenues for the year. Because the financial transactions for Animal Control are recorded within the Sanitation Fund, any Animal Control expenses in excess of the related fees are satisfied with other collections recorded in the Sanitation Fund, including landfill/garbage fees collected. A City official we spoke with reported the mission of Animal Control is similar to that of the Sanitation Department because staff spend most of their time cleaning up the City. The City official also reported, because of this, the City Council agreed with funding the Animal Control expenses not paid by direct fees with sanitation fees.

The City's website includes Animal Control under the Public Safety Department. In addition, the budget forms established by the Iowa Department of Management (DOM) provide for reporting Animal Control financial activity as part of Public Safety within the General or Special Revenues Funds. While DOM does not prohibit cities from budgeting and accounting for Animal Control as a Proprietary Fund rather than as part of Public Safety, if a City chooses to budget for Animal Control as a Proprietary fund, a separate account should be established and included in line 69, "Other Business Type," on the City's annual budget form. In addition, a separate fund for Animal Control should be established within the City's Chart of Accounts and the related financial activity should not be comingled with Sanitation financial activity.

Each Proprietary Enterprise fund established by a City should recover their costs. If the fees collected for Animal Control are not sufficient to offset the related expenses, the City should consider budgeting and accounting for the function as part of the City's general operations rather than funding the excess costs with sanitation fees.

- **Central Garage** – Are funds received from forfeitures, sale of City vehicles, impoundments, and scrap sales being directed correctly and who administers this? Is it legal for impounded items not redeemed from the police to be sold and the money used directly in that department or should it go into the General Fund?

Auditor's Response – Proceeds from seized and forfeited property must be administered in accordance with Chapters 809 and 809A of the Code of Iowa. Except for proceeds from forfeitures

and seizures, the City Council can designate the use of the collections specified in the concern and the City has established policies for disposal of forfeitures, City vehicles, impoundments, and scrap sales. The transactions we selected for testing complied with Code requirements and/or City policy.

- **Code Enforcement** – Revenue received from court awards to the department goes to the Police Department even though Code Enforcement issued the citation. Why would the Code Enforcement budget not receive the funds?
- **Auditor's Response** – Cities typically record code enforcement collections in the General fund and proceeds are used for general government operations in a manner established by the City Council. However, we determined collections from code enforcement actions are recorded by the City in Fund 525, the Sanitation Fund. As previously stated, the City's Chart of Accounts shows the Sanitation Fund is included in the City's Proprietary Enterprise funds. As a result, the City budgets code enforcement as a Proprietary fund rather than in the General fund.

A City official we spoke with reported the mission of Code Enforcement is similar to that of the Sanitation Department because staff spend most of their time cleaning up the City. The City official also reported, because of this, the City Council agreed with funding the Code Enforcement expenses not paid by direct fees with sanitation fees.

Also as previously stated, each Proprietary Enterprise fund established by a City should recover their costs. If the fees collected for Code Enforcement are not sufficient to offset the related expenses, the City should consider budgeting and accounting for the function as part of the City's general operations rather than funding the excess costs with sanitation fees.

- **Utility Franchise Fees** – Who administers this and where does that money go? This is called a fee which can be "adjusted" at will, but we feel should be considered a tax, when one pays more to live in Waterloo.

Auditor's Response – Section 384.3A of the Code of Iowa states, in part, "a city that assesses a franchise fee ... shall establish a franchise fee account within the city's general fund. All revenues collected by a city pursuant to such an ordinance shall be deposited in the account." The Code section also requires all moneys in the account be used for inspecting, supervising, and otherwise regulating each franchise approved by the city. Any funds in excess of the amount necessary for those purposes must be expended for any of the items listed in §384.3A(3).

The City's budget documents the franchise fee established by the City is accounted for in the General fund. In addition, we reviewed the City's statement of revenue purpose for the utility franchise fees and confirmed it complied with the applicable Code sections. We also confirmed increases to the City's franchise fees complied with applicable Code sections.

- **Building Inspection** – The City passed an ordinance for a 500% increase in Safety/Registration fees. It was presented to be used for better computer software for the program, more frequent inspection and more employees. We understand more inspections are not being performed. Is the program being done correctly? The increased fee mainly effected rental properties.

Auditor's Response – Effective July 1, 2013, the responsibility to conduct rental property inspections was transferred from the Fire Department to the Building Inspections Department. As a result, the financial transactions associated with the rental property inspections are recorded with other Building Inspections transactions. While a separate account is not maintained for rental registration expenses, we verified the amount collected and deposited for rental property inspection fees is \$25.00 per building inspected.

We also traced the rental inspection fees to the resolutions/ordinances passed by the City Council. Specifically, we observed ordinance numbers 4037 and 5202 passed and adopted September 12, 1994 and February 24, 2014, respectively. The amount of the fees established for rental property inspections via the ordinances are summarized in the following table. As illustrated by the table,

the inspection fee was established at \$25.00 per inspection. We verified inspection fees collected remain at \$25.00 per inspection. There has not been a 500% increase in fees.

Description	Ordinance #4037	Ordinance #5202
Inspection fee	\$ 25.00	25.00
Reinspection fee	100.00	50.00
Fee for scheduled appointment not kept	25.00	50.00

- **Waste Management** – Where does the rest of the \$1.7 million collected each year *[sic]* when only (as reported) \$.4 million went for the actual project from the initiation of a storm water fee?

We are told the City has EPA/DOJ mandates over 140 million for sewer/storm sewer required improvement. Why have we not attacked a greater portion of problem known by the department with monies collected over the years? Where did this money go?

Auditor’s Response – We reviewed the expenses recorded in the City’s accounting system for Storm Water Fund (Fund 521)/Waste Management Water Pollution (Department 14) and did not identify any that were inappropriate or unreasonable. We also reviewed the cash balance on hand at the end of fiscal year 2018 and determined it was reasonable based on the City’s planned projects for fiscal years 2019 through 2029.

- **Healthy H2O Loo Program** – We have been told the City was awarded \$100,000 from the Mayor attending the US Conference of Mayors in Washington DC. We understand the money was given to one entity – the Covenant Medical Center for Obesity in the Cedar Valley. Would that be correct for the other facilities in the Cedar Valley who work on the same issue? Was there a Commission who determined the money should go to only one? This was told to us by the CFO.

Auditor’s Response – The United States Conference of Mayors organization sponsors an annual competitive application process for grants to support childhood obesity prevention and environmental health & sustainability programs. We observed documentation from the organization dated March 16, 2017 which states the City was awarded \$100,000 to support the Healthy H2O Loo program.

We also observed agreements established between the City and several entities to administer the Healthy H2O Loo Program, including the Cedar Valley Blue Zones Project; Tri-County Child & Family Development Council, Inc.; and the University of Northern Iowa Foundation. Documentation describing services provided by Wheaton Franciscan Healthcare – Iowa, a nonprofit organization including Covenant Hospital in Waterloo, was also examined.

In addition, we reviewed action taken by the City Council related to the grant and did not identify any concerns.

- **TIF** – Several concerns regarding TIF were specified, including:
 - We asked for money to be released for property tax relief from TIF but were informed to do so would put TIF in a turmoil. Yet, we continue to purchase property with no one interested in the property because we need it “for future commercial expansion.” Another answer is “if we don’t do it another City will,” much to the determent *[sic]* of the taxpayer! At the same time, we have asked for TIF money to be used for projects to be funded by TIF when it is in a TIF district or originally constructed with TIF dollars; however, again, told it would throw TIF into a turmoil!
 - Two separate TIF *[sic]* were combined (Logan Ave TIF and Midport TIF) because the Logan area TIF did not have enough money to sustain a proposed project there. At the time the areas were combined, the Midport TIF was about to make money for the taxpayers, aka start paying full

taxes. Now with the two combined, we're waiting again a number of years for any tax help. Should this be done?

- Martin Road TIF was renewed for 20 years so a parcel a certain company wanted that was not in the TIF already could be incorporated. We don't see that as fair to the taxpayers when other properties were available in the same area not far from the expanded area. We suspect this is legal; however, when people are elected to represent the taxpayer AND don't, what can one do except point it out for audit.
- San Marnan TIF was renewed because the properties weren't moving. Again, we have properties all over, yet we have to buy property and then sell the property to someone for \$1. Seems like not a wise use of taxpayer money.

Auditor's Response – Tax Increment Financing (TIF) is commonly used by cities to fund public improvement projects in conjunction with developing or redeveloping portions of the city. In accordance with the Code of Iowa, this may include upgrading areas of the city suffering from slum and blight, helping residential development efforts, and/or enhancing economic development activities. Prior to approving an urban renewal project within an urban renewal area, cities must hold a public hearing. Once a project is approved, cities incur debt to finance improvements then use the incremental property tax revenue to make the related debt payments.

Decisions regarding which projects to implement and the related financing options are management decisions which are the responsibility of Council members and must comply with requirements found in the applicable sections of the Code of Iowa.

Activity regarding TIF districts and the related financial transactions must comply with requirements established by Chapter 403 of the Code of Iowa. In accordance with the Code, TIF funds may only be used to pay principal and interest of loans, advances, bonds or indebtedness incurred to finance an allowable TIF project. Our testing of the City's TIF activity did not identify any non-compliance with these requirements.

- **Information Department** – It has been indicated a lot of time is spent by the IT personnel at fire houses straightening out the computer systems because they are being used for personal private business. Does this cost the taxpayers (in their budget) for added data usage and IT personnel time to correct?

Auditor's Response – City officials have a fiduciary responsibility to efficiently and effectively achieve its mission, provide oversight of the City's operations, and maintain the public trust. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Oversight should include establishing procedures which ensure City resources and equipment are not used for personal purposes and corrective action is taken in a timely manner if such a condition is identified.

To determine if a disproportionate amount of time was spent by IT staff on matters related to the Fire Department, we reviewed time logs maintained by the IT staff which included descriptions of the tasks they performed for individual departments. While more time was spent on tasks for the Fire Department than other departments, we did not identify any tasks which appeared to be a result of using equipment for personal purposes.

Concerns regarding the City's budgeting practices, including

- **Clerk/Finance** – Every year the Council approves the budget however we hear money is moved between departments. Must these funds be moved back to the department they came from and is it? One department we've heard this takes place from has the ability to raise fees to offset their shortage. This increased fee goes before the Council for approval a lot of times after the budget has been passed.

After the budget is set some departments raise fees. Is that correct?

Auditor's Response – In accordance with section 384.16 of the Code of Iowa, each city's annual budget must include expenditures for each program, the amount of revenues to be raised by property taxes, and income from sources other than property taxes. The budget must also compare actual revenues and expenditures from the previous fiscal year, the latest estimate for the current fiscal year, and the proposed for the upcoming fiscal year.

The time between the budget's preparation, approval, and the end of the fiscal year can be fifteen to eighteen months. As a result, cities often discover the amounts originally budgeted are not sufficient to meet the needs of individual programs. As a result, a budget amendment must be made. Budget amendments must comply with requirements established by the Code of Iowa and are only required for expenditures. Cities are not required to file an amendment if they receive additional revenues. In accordance with §384.18 of the Code, city budgets may be amended for any of the following reasons:

- To permit the appropriation and expenditure of unexpended, unencumbered cash balances on hand at the end of the preceding fiscal year which had not been anticipated in the budget.
- To permit the appropriation and expenditure of amounts anticipated to be available from sources other than property taxation, and which had not been anticipated in the budget.
- To permit transfers from the debt service fund, the capital improvements reserve fund, the emergency fund, or other funds established by state law, to any other city fund, unless specifically prohibited by state law.
- To permit transfers between programs with the general fund.

A budget amendment must be prepared and adopted in the same manner as the original budget, as provided in §384.16, and is subject to protest as provided in §384.19 as specified in §384.18. Funds moved between departments are not required to be returned to the originating department.

Information regarding differences between the original budget and the final amended budget for the City are summarized in the "Budgetary Highlights" section of the Management's Discussion and Analysis (MD&A) which is included in the City's comprehensive annual financial report along with the annual independent auditor's report.

While cities are not required to file an amendment if they receive additional revenues, we examined the resolutions and minutes which included fee increases and did not identify any areas of noncompliance. The fee increases tested were properly approved by the City Council.

- **Leisure Services** – Incoming funds such as log sales. Should these funds go into the General Fund?

Auditor's Response – The General Fund is the primary operating fund of a city. It supports operations most identified with the city, such as fire; police; parks and recreation; and library services. However, the General Fund also is the appropriate depository for all other income that is not required by law or contractual agreement to be deposited elsewhere, such as Special Revenue funds, Debt Services funds, and Proprietary Enterprise funds.

We reviewed the City's accounting records and verified proceeds from log sales resulting from removal of trees due to the infestation of the Emerald Ash Borer were properly deposited to the General Fund. We also determined proceeds from other miscellaneous sources were properly deposited in the General Fund.

- **Building Repairs** – We have been informed the city has millions of dollars in building repairs needed! Who should have been responsible for this and where would the money come from? We

understand the city does not have a property maintenance fund! Is that a customary line item in a budget? At a recent council meeting I recall a comment that the City hall building is in bad shape, to the extent building new will most likely be less expensive than repairing the structure! This is the practice with all the public buildings!

Auditor's Response – City officials have a fiduciary responsibility to efficiently and effectively achieve its mission, provide oversight of the City's operations, and maintain the public trust. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

Oversight should include establishing practices and procedures to ensure City resources and equipment are managed in the most fiscally responsible manner possible. However, determination of how that is done is a management responsibility and the manner in which it is carried out is at the discretion of the City Council members and those to whom they choose to delegate duties for carrying out their instructions. City officials are responsible for making difficult decisions on how to best use the city's revenues and fund necessary community services and capital projects. Elected officials must balance the needs of the citizens while also keeping the tax rate at an acceptable level.

On the Expenditures Schedule (page 2) of the annual budget form the City is required to file with the Iowa Department of Management, there is a line item identified for "City Hall & General Buildings" under the General Government category. However, the determination of the planned expenses to include in this budget amount is at the discretion of City officials.

Concerns which were not related to specific financial transactions or budgeting practices, including:

- **Approval of Bills** – The Finance Committee met in December to approve the bills payments. There wasn't a Council meeting after their meeting to approve the payment of said bills. Without Council approval could these bills be paid?

Auditor's Response – Approval of bills was included in the testing performed by the City's independent CPA firm for purposes of expressing an opinion on the City's annual financial statements. We reviewed the CPA's workpapers and confirmed no adverse findings were identified. In addition, we determined the City's procedures for the review and approval of invoices prior to payment and did not identify any concerns.

- **Contract Compliance** – LK Waterloo LLC, per the original contract with the City for the purchase of the 5 Sullivans' Convention Center, was to pay for a number of parking spaces in the nearby parking ramp and a share of the money from events. Has this money been received? Is the City responsible for any bills accumulated relating to events he promoted unrelated to the City that we understand have not been paid being the City has received the property back?

Auditor's Response – We determined the agreement the City entered with LK Holdings Waterloo, LLC (LK Holdings) was nullified when LK Holdings was unable to secure the required financing. We also determined the City has not made any payments related to the nullified agreement and the City has not received any funds from LK Holdings. Records were not available from the City regarding obligations associated with events promoted by LK Holdings.

- **General** – Does bond money have a specific time to be spent on what the money was bonded for? Different bonds taken are still not being used to even partially work on the project but accumulated until all the money is acquired for said project. Every year that goes by that we pay interest on that money causes the price to go up for such projects not to mention the interest on the bond. Is this OK?

The City bonds for money for a project, banks it because the bonded money is not enough to complete the project. Is it prudent practice to bank the money at an interest rate less than the

cost of the money? Is that in the best interest for the taxpayers, especially when year after year the cost for the project keeps increasing?

Auditor's Response – The administrative requirements associated with bonds involves many nuances, but there are requirements regarding the amount of time they can be outstanding in certain situations. Specifically, the IRS has established yield restriction and rebate requirements in section 148 of the Internal Revenue Code, referred to as arbitrage requirements. At times, entities issuing bonds encounter circumstances which do not allow them to spend bond proceeds in the timeframe anticipated at the time of issuance. The restrictions established by the IRS must be complied with in those instances.

Based on the procedures we performed and the documents we reviewed, the City had reasonable expectations to use bond proceeds within the required times when bonds were issued. However, for bonds issued in 2010 and 2012, the required timeframes were not met. The City has engaged a consulting group recognized for its expertise in rebate regulations to complete the analysis required to determine when/if arbitrage payments are required to preserve the tax-exempt status of the bond issues for the bondholders.

- **Equipment Specs** – When equipment goes out for bids, we understand often the specs are written following the specs directly of a certain manufacturer, which makes it hard for another manufacturer to comply; thus, making it difficult, maybe impossible, for a competing manufacturer to meet. When spending taxpayer money is this correct?

Auditor's Response – The City has established a policy which requires detailed specifications be listed for all purchases of \$1,000 or more and the standard bidding format used to obtain responses from at least three vendors. Vendors are to submit sealed bids to be opened at a designated time and place. The City's policy also specifies for purchases of \$25,000 or less, "consideration should be given for purchasing goods or services from a locally owned business within the City if the cost and other considerations are relatively equal."

In addition, the City's policy requires a public hearing on the plans and specifications of any purchase of \$25,000 or more. A formal opening of the related sealed bids before the City Council or designated party is required.

We selected purchases to test for compliance with the City's bidding policy and identified three purchases for which a single response was received. Of the three purchases, two exceeded the \$25,000 threshold and a public hearing was held which included the specifications required. Additional documentation from a City official was also available for one of the purchases which explained why it was necessary to require very specific equipment to meet the City's needs. For each purchase tested, the specifications required were determined to be reasonable.

- **Property Purchases** – The City, over the last few years, has purchased properties "for future expansion" paying 3 times the value of the property. Much of this property is still vacant or sold to someone for \$1. AKA the old Grand Hotel site was purchased, asbestos abated, and leveled at a cost to the taxpayers (TIF) of \$1.2 million then sold to a developer for \$1 for future City taxes. That agreement appears to not pay back the monies invested by the City (us) for 20 years plus. Although it is sold to us as TIF money, TIF money is taxpayer money. Our taxes go up to cover normal City functions until the tax rebate period has expired. Again, is this prudent practice protecting the taxpayers of the City?

Are 657A procedures correct when a property is acquired but substantial dollars are spent to abate asbestos, tear down the property, and then sell the property to someone for \$1? Seems like not a wise use of taxpayer money.

Auditor's Response – Chapter 657A of the Code of Iowa provides tools cities may employ to deal with abandoned nuisance properties. As previously stated, City officials have a fiduciary

responsibility to efficiently and effectively achieve its mission, provide oversight of the City's operations, and maintain the public trust. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity.

Oversight should include establishing practices and procedures to ensure City resources are managed in the most fiscally responsible manner possible. However, determination of how that is done is a management responsibility and the manner in which it is carried out is at the discretion of the City Council members and those to whom they choose to delegate duties for carrying out their instructions. City officials are responsible for making difficult decisions on how to best use the city's revenues and fund necessary community services and capital projects. Elected officials must balance the needs of the citizens while also keeping the tax rate at an acceptable level.

- **Fire** – Our current budget, 2019-2020, provides for a fully staffed Fire Rescue Department; however, we are aware a certain fire station is still closed at times. It has been indicated we are at full staff. Why, if we are at full staff, would that station be closed at all?

Auditor's Response – A budget that provides for a fully staffed Fire Rescue Department means that the Department has the spending authority to hire enough personnel to fully staff the Department. It does not mean enough positions are filled throughout the year to allow for full staffing at all locations.

Fire Rescue Department operations are unique to City operations in that they maintain stations throughout the City. Determining the appropriate hours of operation at each fire station is the responsibility of Fire Department officials (with oversight authority by the City Council). Many factors impact whether it is appropriate or not to conduct operations in a remote location. For example, a fire station cannot safely function with less than a certain number of firefighters. Because the concern identified did not indicate an audit risk, we did not perform testing procedures to review the amounts budgeted for the Department.

- **Street Construction** – Is it correct/common practice for a City to connect a City street repair/rebuild project to a State highway to acquire State funds when at least 1/3 of the proposed project is in excellent shape and great width? AKA Ridgeway Avenue, Waterloo. What Department would oversee this request if your Department doesn't?

Auditor's Response – Inquiry regarding this matter should be directed to the Iowa Department of Transportation.

Concerns that are addressed in annual audits of the City:

- **Hidden Funds** – Individual department reviews presenting their budget to the Council are done every year. At the 11th hour 59th minute, additional funds are found by the CFO. Where do they appear from, a slush fund which keeps our taxes where they are? How many of such hidden funds are out there and should that not be shown up front?

Auditor's Response – Spending authority granted by the annual budget is not the same as actual money available for individual funds. The City can budget in excess of anticipated revenues if a fund has an existing fund balance at the beginning of the fiscal year. As part of their annual audits, the City's CPA firm has ensured all City funds are properly reported.

- **Use of Grants or Federal Funds** – Can grant or Federal money be used for other than what the money was designated for and is it being done? Can these funds be used for general staff wages or only for the project?

Auditor's Response – Grants and federal funds can only be used for their designated purposes. However, many grants and federal programs allow for administrative costs which may include

“general staff wages” that are not specific to a project but necessary for the proper administration of the project.

Within the period we reviewed, the City’s CPA firm tested federal programs in compliance with professional standards and did not identify any findings related to the programs. We reviewed the CPA firm’s workpapers and did not identify any concerns with the procedures they performed.

- **Unfilled Positions** – The City, year after year, budgets for unfilled positions that don’t get filled. When that position still doesn’t get filled again, where does that money go? Should it be carried over for the next year possibly reducing that department’s asking not increasing every year?

Auditor’s Response – In accordance with the Code of Iowa, a City should not expend more than what’s budgeted for any given fund/function. However, it’s important to keep in mind unspent budget does not equate to actual dollars in the bank. Budgeted funds should be thought of as authorization for spending rather than funds sitting in a bank account. A City can budget for a position then choose not to fill it or be unable to fill it. The unspent budget authority for such a position doesn’t mean the City has money to “go” somewhere as a result of the unfilled position.

If the City does have a balance of funds left at the end of the fiscal year for a given fund/function, those funds are carried over to the next year. However, carrying those funds over does not result in reducing the department’s budget for the subsequent year for ongoing costs. Anticipated expenditures must be budgeted for each year, whether spent or not.

Within the period we reviewed, the City’s CPA firm tested the City’s budgeting practices and did not identify any findings. We reviewed the CPA firm’s workpapers and did not identify any concerns with the procedures they performed.

- **Emergency Repairs** – Emergency repairs (sewer/water break) require money. Since there is not a line item on the budget, where does that money come from when a department’s budget is short?

Auditor’s Response – The City is required to budget expenditures by function. As a result, emergency repairs go against the established budget of the department where the repair is required. However, a budget amendment may be prepared and approved in accordance with requirements established by the Code of Iowa.

Within the period we reviewed, the City’s CPA firm tested the City’s budgeting practices and did not identify any findings. We reviewed the CPA firm’s workpapers and did not identify any concerns with the procedures they performed.

- **Unused Budget** – When a department doesn’t use their entire budget on reasonable expenses, what happens to the leftover funds?

Auditor’s Response – Budgeted spending authority does not equate to actual dollars in a bank account. Unspent budget expenditures just goes away at the end of the fiscal year. If the cost continues into the next fiscal year, it must be budgeted for again for that period.

- **Payroll** – When a City employee is promoted with a pay raise then demoted back to the previous position, should they receive a pay cut back to the previous wage?

Auditor’s Response – Without knowing the specifics of this situation, it is not possible to provide a response to this question. There are a number of factors to consider, such as, but not limited to, the City’s policies regarding pay associated with promotions and demotions, the circumstances of the specific promotion and subsequent demotion, and compliance with union agreements. It is likely the City would not be able to publicly provide sufficient details to satisfy this question based on the personnel nature of the situation.

- **Responsibility** – Does (should) the City have a responsibility for problems they create on private or public property to a person's services?

Auditor's Response – Without additional information regarding this concern, we are unable to provide a response. However, it does not appear on the surface to be an audit matter and may be better addressed by the property owner's legal counsel.

City of Waterloo

Staff

This reaudit was performed by:

Lesley R. Geary, CPA, Manager
Alex N. Kawamura, CPA Senior Auditor II
Craig S. Miller, Staff Auditor

A handwritten signature in black ink that reads "Annette K. Campbell". The signature is written in a cursive style with a large, looped initial "A".

Annette K. Campbell, CPA
Chief Deputy Auditor of State