

**INTERNAL CONTROLS
AND
COMPLIANCE SECTION**



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Mayor and
Members of the City Council
City of West Des Moines, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of West Des Moines, Iowa, (City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated April 6, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weaknesses and another deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying schedule of findings and questioned costs as item 2016-A to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying schedule of findings and questioned costs as item 2016-B to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which are described in Part IV of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City and are reported in Part IV of the accompanying schedule of findings and questioned costs. 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.

City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dubuque, Iowa
April 6, 2017

Independent Auditor's Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Honorable Mayor and
Members of the City Council
City of West Des Moines, Iowa

Report on Compliance for the Major Federal Program

We have audited the City of West Des Moines, Iowa's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2016. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the 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'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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City of West Des Moines, Iowa, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs, as item 2016-001 to be a significant deficiency.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Dubuque, Iowa
April 6, 2017

City of West Des Moines, Iowa
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development			
Direct program			
Supportive Housing Program	14.235		\$ 66,518
Community Development Block Grants/Entitlement Grants	14.218		<u>184,711</u>
Total U.S. Department of Housing and Urban Development			<u>251,229</u>
U.S. Department of Justice			
Direct program			
Bulletproof Vest Partnership Program	16.607		<u>2,749</u>
Public Safety Partnership and Community Policing Grants	16.710		48,519
Pass-through program from			
Iowa Governor's Office of Drug Control Policy Public Safety Partnership and Community Policing Grants	16.710	14-CAMP-08	<u>2,129</u>
			<u>50,648</u>
Direct Program			
Edward Bryne Memorial Justice Assistance Grant (JAG) Program	16.738		1,025
Pass-through program from			
City of Des Moines Police Department Edward Bryne Memorial Justice Assistance Grant (JAG) Program	16.738	2015-DJBX-0683	<u>12,577</u>
			<u>13,602</u>
Direct program			
Equitable Sharing Program	16.922		<u>5,077</u>
Total U.S. Department of Justice			<u>72,075</u>

City of West Des Moines, Iowa
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation			
Pass-through program from			
Iowa Department of Transportation			
Highway Planning and Construction	20.205	HDP-8260(629)--71-78	\$ 125,060
Highway Planning and Construction	20.205	STP-U-8260(633)--70-77	212,725
Highway Planning and Construction	20.205	STP-U-8260(634)--70-77	3,347,616
Highway Planning and Construction	20.205	STP-U-8260(635)--70-77	1,709,235
Highway Planning and Construction	20.205	STP-A-8260(640)--86-77	397,960
Highway Planning and Construction	20.205	STP-U-8260(641)--70-77	89,439
			<u>5,882,035</u>
Iowa Department of Public Safety			
Highway Safety Cluster			
State and Community Highway Safety	20.600	15-402-M00P, Task 13	<u>1,954</u>
Alcohol Impaired Driving Counter- Measures Incentive Grants I	20.601	16-402-M00P, Task 13	4,613
Alcohol Impaired Driving Counter- Measures Incentive Grants I	20.601	15-405d-M60T, Task 60	2,014
Alcohol Impaired Driving Counter- Measures Incentive Grants I	20.601	16-405d-M60T, Task 60	<u>2,115</u>
			<u>8,742</u>
			<u>10,697</u>
Total U.S. Department of Transportation			<u>5,892,732</u>
U.S. Department of Health and Human Services			
Pass-through program from			
Iowa Department of Public Health			
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	PEHP Phase 2	7,910
Iowa Department of Human Rights			
Low-Income Home Energy Assistance	93.568	LIHEAP 16-12	6,000
Community Services Block Grant	93.569	CSBG 16-12	<u>6,000</u>
Total U.S. Department of Health and Human Services			<u>19,910</u>

City of West Des Moines, Iowa
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Office of National Drug Control Policy			
Pass-through program from			
Iowa Department of Public Safety			
High Intensity Drug Trafficking Areas			
Program	95.001	G15MW0002A	\$ 21,824
High Intensity Drug Trafficking Areas			
Program	95.001	G16MW0002A	<u>12,391</u>
Total U.S. Office of National Drug Control Policy			<u>34,216</u>
Total			<u><u>\$ 6,270,162</u></u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of West Des Moines, Iowa, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. The City received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a subrecipient is treated as an expenditure when it is paid to the subrecipient.

Note 2 – Significant Accounting Policies

Governmental fund types account for the City's federal grant activity. Therefore, expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis – when they become a demand on current available financial resources. The City's summary of significant accounting policies is presented in Note 1 in the City's basic financial statements.

The City has not elected to use the 10% de minimis cost rate.

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

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

Identification of major program:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Highway Planning & Construction	20.205

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
---	-----------

Auditee qualified as low-risk auditee?	Yes
--	-----

Part II: Findings Related to the Financial Statements:

Material Weakness

2016-A Material Audit Adjustments

Criteria – A properly designed system of internal control over financial reporting allows entities to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles and the requirements of the Uniform Guidance.

Condition – During the course of our engagement, we proposed material audit adjustments to accounts receivable, revenues, accounts payable, expenses, and the Schedule of Expenditures of Federal Awards that were not identified as a result of the City’s existing internal controls and, therefore, could have resulted in a material misstatement of the City’s financial statements.

Cause – There is a limited number of office employees with varying levels of experience with the reporting requirements. This significantly limits the City’s review procedures.

Effect – The effect of this condition was financial data not in accordance with generally accepted accounting principles and the requirements of the Uniform Guidance.

Recommendation – We recommend that City staff continue to receive relevant training and that additional review procedures be implemented.

Views of Responsible Officials – Agree with the finding.

Significant Deficiency

2016-B Bank Reconciliations

Criteria – A properly designed system of internal control over financial reporting allows entities to initiate, authorize, record, process, and report financial data reliably in accordance with generally accepted accounting principles.

Condition – The City’s general ledger cash balance and bank balances were not fully reconciled during the year.

Cause – The City was in the process of switching banks and accounting software at about the same time and encountered cash reconciliation issues during the implementation process.

Effect – The effect of this condition was that inaccuracies in the City’s general ledger cash balances were not identified.

Recommendation – We recommend that City ensure bank reconciliations are performed completely and timely.

Views of Responsible Officials – Agree with the finding.

Part III: Findings and Questioned Costs for Federal Awards:

**2016-001 U.S. Department of Transportation
CFDA#20.205
Highway Planning and Construction**

**Procurement and Suspension and Debarment
Significant Deficiency in Internal Control over Compliance**

Criteria – The Uniform Guidance, Section 200.303 Internal Controls, requires the non-federal entity must establish and maintain effective internal controls over federal awards that provide reasonable assurance that awards are being managed in compliance with federal statutes, regulations and the terms and conditions of the federal award.

Suspension and Debarment Requirements

Non-federal entities are prohibited from contracting with or making subawards under covered transactions that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All non-procurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/>.

Condition – We tested compliance and internal controls over suspension and debarment and noted one vendor in which there was no documentation to support that a System of Award Management (SAM) check was performed to determine if the entity was suspended or debarred.

Cause – There is a lack of effective controls over the suspension and debarment compliance requirements.

Effect – Failure to provide documentation of the SAM’s check being performed may result in disallowed cost.

Questioned Cost – None reported.

Context/Sampling – Program expenditures for the year ended June 30, 2016, contained only the one tested “covered transaction”. Sampling was not used.

Repeat Finding from Prior Year(s) – No

Part III: Findings and Questioned Costs for Federal Awards: (continued)

Recommendation – We recommend that management review and improve the approval and documentation process for program expenditures to identify “covered transactions” and ensure SAM’s checks are performed.

Views of Responsible Officials – Agree with the finding.

Part IV: Other Findings Related to Required Statutory Reporting:

2016-IA-A Certified Budget – Disbursements during the year ended June 30, 2016 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended 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 the future, if applicable.

2016-IA-B Questionable Expenditures – We noted no expenditures that we believe may fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

2016-IA-C Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

2016-IA-D Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Rick Messerschmidt, City Council, Wife owns Embark IT, Inc.	Information Technology	\$ 65,930
Brian Ascheman, Police Officer, Father is medical service provider	Medical	1,445

According to Chapter 362.5 of the Code of Iowa, an officer or employee of a City shall not have an interest, direct or indirect, in a contract with that City. The provision does not apply to transactions that do not exceed a cumulative total purchase price of \$1,500 in a fiscal year or to contracts made by a city upon competitive bid. The transactions with Embark IT were entered into through competitive bidding.

Part IV: Other Findings Related to Required Statutory Reporting: (continued)

2016-IA-E 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 that the coverage is adequate for current operations.

2016-IA-F Council Minutes – No transactions were found that we believe should have been approved in the City Council minutes but were not.

Although minutes of City Council proceedings were published, they were normally not published within 15 days of the meeting as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should take measures to publish Council minutes within 15 days of the meeting.

Response – The City’s practice is to publish Council meeting minutes immediately after approval by Council at the subsequent meeting, generally two weeks following. Minutes are made available to the public via the City’s website along with the upcoming meeting Council packet within two weeks, however they are generally considered to be a proposed version until acted upon by the Council.

2016-IA-G Deposits and Investments – 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.

2016-IA-H Annual Urban Renewal Report – The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1. However, the City misreported the debt in its original submission.

Recommendation – The City should implement additional preparation and review procedures relating to the annual urban renewal report.

Response – The City will review all TIF reconciliations, internal cash flow models, and annual Urban Renewal reports with its financial advisors, as well with State and County officials, as needed to ensure accurate certifications and reports.

2016-IA-I Tax Increment Financing – Chapter 403.19 of the Code of Iowa provides a municipality shall certify indebtedness to the County Auditor. While performing audit procedures, we noted some amounts certified inaccurately.

Recommendation –The City should reconcile future TIF needs with the annual County TIF Reconciliation.

Response – The City will review all TIF reconciliations, internal cash flow models, and annual Urban Renewal reports with its financial advisors, as well with State and County officials, as needed to ensure accurate certifications and reports.