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, 2017, 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 18, 2018.

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 have not been 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 weakness 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 described in Part II of the accompanying schedule of findings and questioned costs as item 2017-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 2017-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, 2017, 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Dubuque, Iowa
April 18, 2018

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, 2017. 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 types of compliance requirements referred to above that could have a direct and material effect on its major Federal program for the year ended June 30, 2017.

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 a 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Dubuque, Iowa
April 18, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Direct program			
CDBG – Entitlement Grants Cluster			
Community Development Block Grants/Entitlement Grants	14.218		$ 98,019
Pass-through program from			
Iowa Economic Development Authority			
Community Development Block Grants/ States Program and Non-Entitlement Grants in Hawaii	14.228	08-DRH-214	48,365
Direct program			
Supportive Housing Program	14.235		25,064
Total U.S. Department of Housing and Urban Development			171,448
U.S. Department of Justice			
Direct program			
Bulletproof Vest Partnership Program	16.607		1,776
Public Safety Partnership and Community Policing Grants	16.710		22,269
Equitable Sharing Program	16.922		2,211
Total U.S. Department of Justice			26,256

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Transportation			
Pass-through program from			
Iowa Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	HDP-8260(629)--71-25	$ 163,007
Highway Planning and Construction	20.205	STP-U-8260(634)--70-77	453,759
Highway Planning and Construction	20.205	STP-U-8260(635)--70-77	500,000
Highway Planning and Construction	20.205	STP-U-8260(641)--70-77	760,561
Total Highway Planning and Construction Cluster			1,877,327
Iowa Department of Public Safety			
Highway Safety Cluster			
Alcohol Impaired Driving Counter-Measures Incentive Grants I	20.601	17-402-M0OP, Task 12	16,537
Alcohol Impaired Driving Counter-Measures Incentive Grants I	20.601	16-402-M0OP, Task 13	15,730
Alcohol Impaired Driving Counter-Measures Incentive Grants I	20.601	16-405d-M6OT, Task 60	735
Total Highway Safety Cluster			33,002
Total U.S. Department of Transportation			1,910,329
U.S. Environmental Protection Agency			
Pass-through program from			
Iowa Department of Natural Resources			
State Clean Diesel Grant Program	66.040	DS-97745501-2	125,500
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	19,212
Iowa Department of Human Rights			
Low-Income Home Energy Assistance	93.568	LIHEAP 17-12	6,000
Community Services Block Grant	93.569	CSBG 17-12	6,000
Total U.S. Department of Health and Human Services			31,212

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
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	G16MW0002A	$ 65,106
High Intensity Drug Trafficking Areas Program	95.001	G17MW0002A	41,854
Total U.S. Office of National Drug Control Policy			106,960
Total			$ 2,371,705

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. There was no assistance provided to subrecipients during the year ended June 30, 2017.

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	None reported
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:	No
Identification of major program:	
Name of Federal Program	CFDA Number
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?	No

Part II: Findings Related to the Financial Statements:

Material Weakness

2017-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.

Condition – During the course of our engagement, we proposed material audit adjustments to unavailable revenue, revenue, capital asset, expense, and net position balances 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.

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

2017-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 bank reconciliation procedures were not performed in a timely manner.

Cause – Turnover within the Finance department prevented timely reconciliation.

Effect – The effect of this condition was the City's general ledger cash balances may not have been accurately stated on a timely basis.

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:

There were no federal findings and questioned costs to report.

Part IV: Other Findings Related to Required Statutory Reporting:

2017-IA-A **Certified Budget** – Disbursements during the year ended June 30, 2017, 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**.**

Views of Responsible Officials – The budget will be amended in the future, if applicable.

2017-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.

2017-IA-C **Travel Expense** – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

2017-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	$ 51,612
Brian Ascheman, Police Officer, Father, Philip Ascheman, is a medical service provider	Medical	4,595
Greg Siembeida, Firefighter, Owner of Walnut Creek Promotions, Inc.	Uniform Supplies	2,789

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. All of the transactions with Walnut Creek Promotions, Inc. were entered into through competitive bidding. $40,362 of the transactions with Embark IT, Inc. were entered into through competitive bidding. The transactions with Philip Ascheman were not entered into through competitive bidding.

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

2017-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.

2017-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.

Views of Responsible Officials – 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.

2017-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.

2017-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.

Views of Responsible Officials –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.

2017-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.

Views of Responsible Officials – 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.