

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**

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

We have audited 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 (the City) as of and for the year ended June 30, 2011, which collectively comprise the City of West Des Moines, Iowa's basic financial statements and have issued our report thereon dated December 13, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and a deficiency 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 item 11-II-A described in the accompanying schedule of findings 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 item 11-II-B described in the accompanying schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 that are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters in Part IV of the Schedule of Findings are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of West Des Moines and other parties to whom the City of West Des Moines may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
December 13, 2011

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the City of West Des Moines' (the City) compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of the independent auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of West Des Moines complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness.

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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings as item 11-III-A to be a material weakness.

The City of West Des Moines' responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of West Des Moines' responses and, accordingly, we express no opinion on the responses.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DENMAN & COMPANY, LLP

West Des Moines, Iowa
December 13, 2011

City of West Des Moines, Iowa
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year ended June 30, 2011

Summary

Status

Other Findings Related to Required Statutory Reporting:

10-IV-F	Minutes of Council meetings were not published within 15 days as required by Chapter 372.13(6) of the Code of Iowa.	Corrected
10-IV-M	Community Development Block Grant Special Revenue Fund balance as of June 30, 2010.	Not corrected; see finding 11-IV-M
10-IV-N	Travel reimbursement approval.	Corrected

**City of West Des Moines
SCHEDULE OF FINDINGS
Year ended June 30, 2011**

Part I—Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) One material weakness and one significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) One material weakness in internal control over major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to major programs.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - *Justice Assistance Grant (JAG) Program Cluster
 - CFDA Number 16.803 - ARRA Edward Byrne Memorial Justice Assistance Grant Program/
Grants to States and Territories
 - CFDA Number 16.804 - ARRA Edward Byrne Memorial Justice Assistance Grant Program/
Grants to Units of Local Government
 - CFDA Number 16.738 - Edward Byrne Memorial Justice Assistance Grant Program
 - *CDBG Entitlement Grants Cluster
 - CFDA Number 14.218 - Community Development Block Grants/Entitlements Grants
 - CFDA Number 14.253 - ARRA Community Development Block Grants/Entitlement Grants
 - *CFDA Number 20.205 - Highway Planning and Construction
 - *CFDA Number 81.128 - ARRA Energy Efficiency and Conservation Block Grant Program (EECBG)
- (h) The dollar threshold used to distinguish between type A and B programs was \$300,000.
- (i) The City of West Des Moines qualified as a low-risk auditee.

**City of West Des Moines
SCHEDULE OF FINDINGS
Year ended June 30, 2011**

**Part II—Findings Relating to the Financial Statements Reported in
Accordance with *Government Auditing Standards***

INTERNAL CONTROL DEFICIENCIES

11-II-A SCHEDULE OF FEDERAL AWARDS (SEFA) PREPARATION

One City employee had the overall responsibility for final preparation of the SEFA. No one reviewed this employee's work for accuracy. The report was presented to the auditors prior to adequate internal review and as a result contained significant reporting errors.

Recommendation

The City should provide knowledgeable and independent oversight of the SEFA preparation and ensure staff responsible for it, have the resources needed to do an effective job. Testing and monitoring of systems used in SEFA preparation should be performed throughout the year to ensure accurate reporting of federal assistance.

Response

Regularly updating the SEFA had been performed by the previous Budget Analyst, but following her departure and through subsequent periods of short-staffing, several updates were neglected. As a result of the deficiency, the City will assign responsibility for updating the report to the Accounting Manager. Grant activity will be reported to the Accounting Manager as it occurs and the report will be updated on a consistent basis.

Conclusion

Response accepted.

11-II-B SEGREGATION OF DUTIES

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one person had control over both check writing and bank reconciliation procedures for certain months of the year during times of inadequate staffing.

Recommendation

The responsibilities for check writing and bank reconciliations should be maintained by two separate individuals in the City's finance department.

Response

This internal control deficiency resulted from turnover in the City's finance department during the year. An incomplete staff made segregation of duties difficult during this period, due to remaining staff taking over responsibilities of individuals who had left the department. The City has hired an accountant who now performs the bank reconciliation procedures and an accounting manager who reviews the reconciliation and therefore have implemented proper segregation of duties between check writing and bank reconciliations.

Conclusion

Response accepted.

**City of West Des Moines
SCHEDULE OF FINDINGS
Year ended June 30, 2011**

**Part II—Findings Relating to the Financial Statements Reported in
Accordance with *Government Auditing Standards***

INSTANCES OF NONCOMPLIANCE

No matters were noted.

**City of West Des Moines
SCHEDULE OF FINDINGS
Year ended June 30, 2011**

Part III—Findings and Questioned Costs for Federal Awards

INTERNAL CONTROL DEFICIENCIES

11-III-A SCHEDULE OF FEDERAL AWARDS (SEFA) PREPARATION

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Recommendation

The City should provide knowledgeable and independent oversight of the SEFA preparation and ensure staff responsible for it, have the resources needed to do an effective job. Testing and monitoring of systems used in SEFA preparation should be performed throughout the year to ensure accurate reporting of federal assistance.

Response

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Conclusion

Response accepted.

INSTANCES OF NONCOMPLIANCE

No matters were noted.

**City of West Des Moines, Iowa
SCHEDULE OF FINDINGS
Year ended June 30, 2011**

Part IV—Other Findings Related to Required Statutory Reporting

11-IV-A CERTIFIED BUDGET

Expenditures during the year ended June 30, 2011 exceeded the amount budgeted in the public works and debt service functions.

Recommendation

The amendment to the budget should have been in an amount adequate so that expenditures do not exceed the budget.

Response

The amount budgeted for public works expenditure was exceeded due primarily to the reclassification of infrastructure maintenance. The cost of these projects, while they did not meet the definition of capital improvements, had previously been included with construction-in-process. At June 30, 2011, work was complete so all costs were reclassified as public works expenditures. In future years, staff will take steps to ensure the construction-in-process accounts will only include appropriate capital projects, and any adjustments to maintenance items will be reflected in the public works expenditures budget.

The amount budgeted for debt service expenditure was exceeded because staff failed to properly classify the effects of a bond refunding transaction in the budget for the fiscal year ended June 30, 2011. A general obligation bond refunding had closed in the fiscal year ended June 30, 2010, but proceeds remained in the City's escrow account beyond June 30, 2010, so the fiscal year 2011 budget should have been adjusted to reflect the expenditure. In future years, staff will consider the effect of escrowed funds when establishing the debt service budget.

Conclusion

Response accepted.

11-IV-B QUESTIONABLE EXPENDITURES

No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.

11-IV-C TRAVEL EXPENSE

No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

11-IV-D BUSINESS TRANSACTIONS

We noted no business transactions between the City and City officials or employees in excess of \$1,500.

11-IV-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 coverage is adequate for current operations.

City of West Des Moines, Iowa
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2011

11-IV-F COUNCIL MINUTES

We noted no transactions requiring Council approval which had not been approved in the Council minutes.

11-IV-G DEPOSITS AND INVESTMENTS

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

11-IV-H REVENUE NOTES

No instances of non-compliance with their revenue note provisions were noted.

11-IV-I PAYMENT OF GENERAL OBLIGATION BONDS

The City appears to be in compliance with Chapter 384.4 of the Code of Iowa.

11-IV-J ECONOMIC DEVELOPMENT

We noted no instance of noncompliance with Chapter 15A of the Code of Iowa.

11-IV-K NOTICE OF PUBLIC HEARING FOR PUBLIC IMPROVEMENTS

We noted no instance of noncompliance with Chapters 384.102 and 362.3 of the Code of Iowa.

11-IV-L SALES TAX

We noted no instance of noncompliance with Sections 701-26.71 and 701-26.72 of the Iowa Department of Revenue and Finance Administrative Rules and Regulations.

11-IV-M FINANCIAL CONDITION

Finding

Community Development Block Grant Fund had a deficit fund balance of \$134,986 as of June 30, 2011. Dallas County Local Housing Trust Fund had a deficit fund balance of \$31,023 as of June 30, 2011.

Recommendation

The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response and Corrective Action Plan

The money has now been received and fund balances are positive. Steps have been taken to address concerns of the grantor which will allow for more timely reimbursements.

Conclusion

Response accepted.

City of West Des Moines, Iowa
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2011

11-IV-N TAX INCREMENT FINANCING CERTIFICATION

Finding

The City improperly certified \$5,000,000 payable under an urban renewal development agreement twice on the December 1, 2010 tax increment financing indebtedness certification.

Recommendation

The excess \$5,000,000 certified should be de-certified to the county treasurer on the next certification, due December 1, 2011.

Response and Corrective Action Plan

The City de-certified the excess \$5,000,000 on its tax increment financing certification, prior to its due date to the county treasurer of December 1, 2011.

Conclusion

Response accepted.

**City of West Des Moines, Iowa
CORRECTIVE ACTION PLAN
Year ended June 30, 2011**

<u>Current Number</u>	<u>Comment</u>	<u>Corrective Action Plan</u>	<u>Anticipated Date of Completion</u>	<u>Contact Person</u>
11-II-A	Schedule of Federal Awards (SEFA) preparation	See response and corrective action plan at 11-II-A	June 30, 2011	Tim Stiles
11-II-B	Segregation of duties	See response and corrective action plan at 11-II-B	June 30, 2011	Tim Stiles
11-III-A	Schedule of Federal Awards (SEFA) preparation	See response and corrective action plan at 11-III-A	June 30, 2011	Tim Stiles
11-IV-A	Certified Budget	See response and corrective action plan at 11-IV-A	June 30, 2011	Tim Stiles
11-IV-M	Community Development Block Grant and Dallas County Local Housing Trust Fund balances as of June 30, 2011	See response and corrective action plan at 11-IV-M	June 30, 2011	Tim Stiles
11-IV-N	Tax Increment Financing Certification	See response and corrective action plan at 11-IV-N	June 30, 2011	Tim Stiles