

**INTERNAL CONTROLS
AND
COMPLIANCE SECTION**

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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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 12, 2013.

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.

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. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify a certain deficiency in internal control, described in Part II of the accompanying schedule of findings and questioned costs as item 2013-A, that we consider 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*.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013, 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.

We noted another matter that we reported to management of the City in a separate letter dated December 12, 2013.

City's Response 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
December 12, 2013

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

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

Report on Compliance for Each 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 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, 2013. The City's major federal programs are 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 the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of the City's major federal programs 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 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 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 each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Qualified Opinion on the ARRA – Energy Efficiency and Conservation Block Grant Program

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding CFDA 81.128 ARRA-Energy Efficiency and Conservation Block Grant Program as described in finding 2013-001 for the Davis-Bacon Act. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on the ARRA – Energy Efficiency and Conservation Block Grant Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the ARRA – Energy Efficiency and Conservation Block Grant Program for the year ended June 30, 2013.

Unmodified Opinion on the Other Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its other major federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2013.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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 consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-001 to be a material weakness.

The City's response to the internal control over compliance finding 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Dubuque, Iowa
December 12, 2013

City of West Des Moines, Iowa
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Grantor/Program	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Direct program:			
Community Development Block Grants/Entitlement Grants	14.218		\$ 343,616
Pass-through program from:			
Iowa Economic Development Authority:			
Community Development Block Grants/ State's program and Non-Entitlement Grants in Hawaii	14.228	08-DRH-214	20,728
Direct program:			
Supportive Housing Program	14.235		<u>101,794</u>
Total U.S. Department of Housing and Urban Development			<u>466,138</u>
U.S. Department of Justice:			
Direct program:			
Edward Byrne Memorial Formula Grant Program	16.579		<u>12,773</u>
Bulletproof Vest Partnership Program	16.607		<u>4,250</u>
Pass-through program from:			
Polk County Sheriff's Office:			
Public Safety Partnership and Community Policing Grants	16.710	10-HotSpots/Interdiction-09	<u>6,935</u>
JAG Program Cluster:			
Direct program:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		14,417
Pass-through program from:			
Mid-Iowa Narcotics Enforcement Task Force:			
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803	10-JAG/ARRA-42154	<u>60,129</u>
Total JAG Program Cluster			<u>74,546</u>
Direct program:			
Equitable Sharing Program	16.922		<u>25,172</u>
Total U.S. Department of Justice			<u>123,676</u>

City of West Des Moines, Iowa
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2013

Grantor/Program	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	20.205	HDP-8260(615)--71-77	\$ 462,071
Highway Planning and Construction	20.205	STP-A-8260(627)--86-25	353,600
Highway Planning and Construction	20.205	STP-A-8260(630)--86-77	306,352
Highway Planning and Construction	20.205	STP-U-8260(624)-70-77	286,690
Highway Planning and Construction	20.205	STP-A-8260(625)--86-25	216,000
Highway Planning and Construction	20.205	STP-U-8260(622)--70-77	202,590
Highway Planning and Construction	20.205	STP-U-8260(613)-70-77	7,914
			<u>1,835,217</u>
Highway Safety Cluster			
Pass-through program from:			
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 13-03, Task 13	<u>27,159</u>
Alcohol Impaired Driving			
Countermeasures Incentive Grants I	20.601	PAP 12-410, Task 79	19,074
Alcohol Impaired Driving			
Countermeasures Incentive Grants I	20.601	PAP 12-410, Task 81	3,008
Alcohol Impaired Driving			
Countermeasures Incentive Grants I	20.601	PAP 13-410, Task 61	630
Alcohol Impaired Driving			
Countermeasures Incentive Grants I	20.601	K813-00-00-08	<u>362</u>
			<u>23,074</u>
Total Highway Safety Cluster			<u>50,233</u>
Total U.S. Department of Transportation			<u>1,885,450</u>
U.S. Department of Energy:			
Direct program:			
ARRA - Energy Efficiency and Conservation			
Block Grant Program	81.128		<u>183,349</u>
U.S. Department of Health and Human Services:			
Pass-through program from:			
Iowa Department of Human Rights:			
Low-Income Home Energy Assistance	93.568	LIHEAP 13-12-U	6,000
Community Services Block Grant	93.569	CSBG 12-12-CU	<u>6,000</u>
Total U.S. Department of Health and Human Services			<u>12,000</u>
Total			<u>\$ 2,670,613</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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. 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.

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.

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	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 §.510(a):	Yes

Identification of major programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Highway Planning and Construction	20.205
ARRA - Energy Efficiency and Conservation Block Grant Program	81.128

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCY:

2013-A Capital Asset Audit Adjustments

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

Condition – During the course of our engagement, we proposed audit adjustments to capital asset balances that would not have been identified as a result of the City’s existing internal controls and, therefore, could have resulted in a misstatement of the City’s financial statements.

Cause – The City’s capital asset procedures did not include controls over repair and maintenance type projects not yet approved by Council included in construction in progress at June 30, 2013. In addition, capital asset procedures lacked a review of possible capital expenditures accounted for in repairs and maintenance accounts in the City’s general ledger.

Effect – The effect of this condition was financial data not in accordance with generally accepted accounting principles.

Recommendation – We recommend that finance staff implement capital asset procedures to identify repair and maintenance type projects included in construction in progress and to identify possible capital assets accounted for in repairs and maintenance accounts.

Response – The City’s past practice has been to reclassify construction in progress upon Council acceptance of each individual project. At that time, projects are evaluated and related costs are then categorized as either a capital asset or a maintenance item. Procedures will be implemented to individually evaluate all projects in process at the end of the fiscal year and reclassify maintenance-related project costs as appropriate. Conversely, the City will also perform periodic reviews of activity in repairs and maintenance accounts to identify and reclassify any capital assets.

Part III: Findings and Questioned Costs for Federal Awards:

MATERIAL WEAKNESS AND NONCOMPLIANCE:

2013-001 Davis-Bacon Act

CFDA #81.128 ARRA – Energy Efficiency and Conservation Block Grant Program

U.S. Department of Energy

Questioned Costs - Unknown

Criteria – A properly designed system of internal control over compliance with the requirements of federal programs allows entities to meet those requirements set forth by the federal government in administering federal grants. Sections 40-USC 3141-3144, 3146, and 3147 require that entities expending federal awards on construction projects in excess of \$2,000 ensure that contractors are paying wages not less than those established for the locality of the project by the United States Department of Labor, and that the contractors are submitting their certified payrolls weekly to the grantee.

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

Condition – The City did not enforce or monitor the requirements of the Davis-Bacon Act on a contract in place during the year.

Cause – It appears the cause was due to miscommunication between the City and the awarding agency.

Effect – The City did not comply with federal requirements regarding the Davis-Bacon Act.

Recommendation – The City should put procedures in place to insure that they are following all requirements of federal grants related to the provisions of the Davis-Bacon Act.

Response – The City believes this condition was an isolated incident. Staff will verify that procedures are in place to ensure compliance with all requirements of federal grants and take additional steps to emphasize the importance of properly documenting communication between the City and awarding agencies.

Part IV: Other Findings Related to Required Statutory Reporting:

2013-IA-A Certified Budget – Disbursements during the year ended June 30, 2013, did not exceed the amount budgeted.

2013-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.

2013-IA-C Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

2013-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
Ted Ohmart, council member, owner in Hawk Metal Products	Supplies	\$ 2,940
Michael Feekes, employee, owner in Phoenix Cabinetry	Supplies	406
Greg Siembieda, employee, owner in Walnut Creek Promotions	Supplies	395

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with Phoenix Cabinetry and Walnut Creek Promotions do not appear to represent conflicts of interest since total transactions with each individual were less than \$1,500 during the fiscal year. The transaction with Hawk Metal Products may represent a conflict of interest.

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

Recommendation – We recommend the City review the transaction with Hawk Metal Products with legal counsel.

Response – The transactions with Hawk Metal Products were reviewed by the Finance Director and City Attorney’s office. The transactions resulted from the City’s approved competitive bidding process where Hawk Metal Products proved to be the successful bidder. It was concluded that the transactions were conducted at arm’s length and that staff complied with the City’s applicable purchasing and disbursement policies in each instance.

2013-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.

2013-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.

2013-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.

2013-IA-H Urban Renewal Annual Report – The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1.

2013-IA-I Revenue Notes – No instances of non-compliance with the sewer revenue note provisions were noted.

There were no prior year federal findings.