Arledge
& Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF LAWTON, OKLAHOMA

SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES

JUNE 30, 2010

CITY OF LAWTON, OKLAHOMA

TABLE OF CONTENTS

	PAGE
SINGLE AUDIT REPORTS AND SUPPLEMENTARY SCHEDULES:	
Reports related to financial statements of the reporting entity Required by GAO Government Auditing Standards:	
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*	1
Reports related to Federal Assistance Programs Required by OMB Circular A-133:	
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 and Report on Schedule of Expenditure of Federal Awards	3
Schedule of Expenditures of Federal Awards	5
Schedule of Findings and Questioned Costs	7
Summary Schedule of Prior Audit Findings	14

Arledge
& Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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 Lawton, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lawton, Oklahoma (the "City") as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 7, 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. We did not audit the financial statements of Lawton Metropolitan Area Airport Authority, the Lawton Arts and Humanities Council, the McMahon Auditorium Authority, the Museum of the Great Plains Trust Authority, and the City Employees Retirement Trust Fund, which the City reports as a Pension Trust Fund, as described in our report on the City's financial statements. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for these discretely presented component units and the Pension Trust Fund, are based on the reports of the other auditors. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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 and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and a deficiency in internal control over financial reporting 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 the accompanying schedule of findings and questioned costs as Finding 2010-01 to be a material weakness.

309 N. Bryant Ave. · Edmond, OK 73034 · 405.348.0615 · Fax 405.348.0931 · www.jmacpas.com
Member of AICPA and OSCPA

A *significant deficiency* is a deficiency, or 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 as Finding 2010-02 in the accompanying schedule of findings and questioned costs 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*.

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

This report is intended solely for the information and use of the Mayor, City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Arledge & Associates, P.C.

Edmond, Oklahoma
July 7, 2011

Arledge
& Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Mayor and Members of the City Council
City of Lawton, Oklahoma

Compliance

We have audited the City of Lawton, Oklahoma's (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, 2010. 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. 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 of the City's compliance with those requirements.

In our opinion, the City 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, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2010-04.

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 grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with 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.

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 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.

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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as Findings 2010-03 and 2010-04. 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.

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2010, and have issued our report thereon dated July 7, 2011, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Mayor, City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Arledge & Associates, P.C.

Edmond, Oklahoma
July 7, 2011

City of Lawton, Oklahoma
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010

Federal Grantor/Pass through agency Grantor/Program Title	CFDA Number	Grant Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
Community Development Block Grant	14.218	B-07-MC-40-001	$ 828,098
Community Development Block Grant	14.218	B-08-MC-40-001	110,065
Community Development Block Grant	14.218	B-09-MC-40-001	-
Subtotal CFDA 14.218			938,163
Community Development Block Grant - ARRA	14.253	B-09-MY-40-001	203,045
Community Development Block Grant - Section 108	14.248	B-06-MC-40-001	1,266,732
Oklahoma Neighborhood Stabilization Program	14.228	B-08-DN-04-001	112,306
Home Investment Partnerships Program	14.239	M-06-MC-40-0201	34,000
Home Investment Partnerships Program	14.239	M-07-MC-40-0201	111,884
Home Investment Partnerships Program	14.239	M-08-MC-40-0201	228,970
Home Investment Partnerships Program	14.239	M-09-MC-40-0201	37,803
Subtotal CFDA 14.239			412,657
Total U.S. Department of Housing and Urban Development			**2,932,903**
U.S. DEPARTMENT OF JUSTICE:			
Edward Byrnes Memorial Formula Grant Program	16.579	2009-DJ-BX-0830	43,044
Edward Byrnes Memorial Formula Grant Program - ARRA	16.804	2009-SB-BP-3100	241,880
Bulletproof Vest Partnership Program	16.607	2009-BUBX04023433	19,081
Total U.S. Department of Justice			**304,005**
U.S. DEPARTMENT OF TRANSPORTATION			
Pass through Oklahoma Highway Safety Department			
State and Community Highway Safety	20.600	K8-09-03-05-02	24,798
State and Community Highway Safety	20.600	PT-09-03-14-06	29,869
State and Community Highway Safety	20.600	PT-10-03-20-07	39,007
Subtotal CFDA 20.600			93,674
Intermodal Transportation Enhancement Project	20.UNKNOWN	STP-116E(130)EH	1,772
Federal Transit-Cluster			
Federal Transit Capital Investment Grants	20.500	OK-04-0004-00	36,423
Federal Transit Formula Grants	20.507	OK-90-X096-00	938,519
Federal Transit Formula Grants	20.507	OK-90-X088-00	36,789
Federal Transit Formula Grants	20.507	OK-90-X099-00	541,392
Federal Transit Formula Grants	20.507	OK-03-X042-00	10,165
Federal Transit Formula Grants - ARRA	20.507	OK-96-X001-01	102,547
Subtotal CFDA 20.507			1,629,412
Total Federal Transit-Cluster			1,665,835
Total U.S. Department of Transportation			**1,761,281**
U.S. DEPARTMENT OF HOMELAND SECURITY			
Disaster Grants - Public Assistance (Note 3)	97.036	FEMA-PA-1883 PW141	353,689
Disaster Grants - Public Assistance (Note 3)	97.036	FEMA-PA-1883 PW152	26,953
Disaster Grants - Public Assistance (Note 3)	97.036	FEMA-PA-1883 PW149	544,286
Disaster Grants - Public Assistance (Note 3)	97.036	FEMA-PA-1883 PW140	92,423
Disaster Grants - Public Assistance (Note 3)	97.036	FEMA-PA-1712 PW1832-2052	431,070
Disaster Grants - Public Assistance (Note 3)	97.036	FEMA-PA-1823 PW137	146,464
Disaster Grants - Public Assistance (Note 3)	97.036	FEMA-PA-1876 PW62	76,140
Subtotal CFDA 97.036			1,671,025
Total Department of Homeland Security			**1,671,025**

Continued...

City of Lawton, Oklahoma
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010

Federal Grantor/Pass through agency Grantor/Program Title	CFDA Number	Grant Number	Federal Expenditures
DEPARTMENT OF DEFENSE			
Community Economic Adjustment Assistance for Establishment, Expansion Realignment, or Closure of a Military Installation	12.607	RA06105-07-02	8,957
Total Department of Defense			8,957
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Retired and Senior Volunteer Program	94.002	07SRWOK003	27,252
Total Corporation for National and Community Service			27,252
U.S. DEPARTMENT OF ENERGY			
Energy Efficiency Block Grant	81.128	DE-SD0003144	34,500
Total U.S. Department of Energy			34,500
ENVIRONMENTAL PROTECTION AGENCY			
Pass through Oklahoma Water Resources Board			
Capitalization Grants for Drinking Water State Revolving Funds - ARRA	66.468	ORF-09-0014-DW	767,837
Capitalization Grants for Clean Water State Revolving Funds - ARRA	66.458	ORF-09-0015-CW	812,213
Total Environmental Protection Agency			1,580,050
Total Federal Awards			$ 8,319,973

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of the City of Lawton (the "City") under programs of the federal government for the year ended June 30, 2010. The information in this schedule is presented in accordance with requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

Note 2. Summary of Significant Accounting Polices

Expenditures reported on the schedule of expenditures of federal awards are reported on the basis of accounting consistent with the definition of federal awards expended in paragraph 205 of OMB Circular A-133.

Note 3. Disaster Grants

Expenditures under this grant reported above were incurred in previous years with reimbursement received in the current year.

CITY OF LAWTON, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? X yes ____ no
Significant deficiency(ies) identified
not considered to be material weakness(es)? X yes ____ none reported

Noncompliance material to financial statements noted? ____ yes X no

Federal Awards

Internal control over major programs:
Material weakness (es) identified? ____ yes X no
Significant deficiency (ies) identified
not considered to be material weakness (es)? X yes ____ none reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section .510(a)? X yes ____ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.218/14.253	Community Development Block Grant – Entitlement Grants Cluster
14.248	Community Development Block Grant – Section 108
16.804	Edward Byrnes Memorial Formula Grant Program - ARRA
66.468	Capitalization Grants for Drinking Water State Revolving Funds - ARRA
66.458	Capitalization Grants for Clean Water State Revolving Funds – ARRA
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish
between Type A and Type B programs: $ 300,000

Auditee qualified as low-risk auditee? ____ yes X no

CITY OF LAWTON, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

SECTION II – FINANCIAL STATEMENT FINDINGS

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

2010-01, 2010-02

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Compliance Findings

2010-04

Internal Control Findings

2010-03, 2010-04

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2010

Finding 2010-01 Controls Over Financial Reporting
(Prior Year Finding 2009-1)

Criteria: The City's financial reporting process has two overarching goals. First, the City's financial reporting process must faithfully represent the activity it purports to represent. Second, the information must be timely – that is making the audited financial information available to decision makers before it loses its capacity to influence decisions.

Condition: Over the past several years, in order to issue complete and fairly presented annual financial statements, material audit adjustments have been required to adjust the trial balances that are used to prepare the annual financial statements. In addition, working trial balances and related annual financial statement information have not been available for audit until six to nine months after the end of the fiscal year. More specifically, the current year trial balances were not received until April 15, 2011. Further issues are as follows:

> ***Capital assets*** – A significant number and magnitude of adjustments were required to the City's capital asset records. As a result of significant year-end reconciliations and related adjustments that were needed by City staff, accounting and reporting over the City's capital assets caused a significant delay in issuing the City's financial statements.
>
> ***Utility accounts receivable*** – Significant difficulty was encountered in reconciling various utility services accounts receivable balances. Accounts receivable reports generated by fund did not reconcile to aged accounts receivable reports and, therefore, significant additional audit testing was required to provide assurance that balances are materially accurate. While accounts receivable were tested and no adjustments to the balances were considered necessary, information technology systems should be reviewed to identify the issues behind the reports.
>
> ***City Employees Retirement System*** – The City's Employees Retirement System is included as a pension trust fund in the City's annual financial statements and therefore is subject to independent audit. The System's financial statements are audited by other auditors, whose report we rely upon in issuing our opinions on the City's reporting entity financial statements. Although we do not audit the System, it is our understanding the City experienced delays in scheduling with the other auditors and that the report from the other auditors was not issued until late April, 2011. While this did not result in a delay in the issuance of the City's current report, a timely report on the retirement system is essential to issuing the City's financial statements in a timely fashion in the future.

Cause: A software conversion in the utility revenue area may explain the utility accounts receivable matter. With regards to capital assets and the preparation of working trial balances, additional training, staff, or outsourcing – or some combination thereof – is needed.

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
Year Ended June 30, 2010

Finding 2010-01 Controls Over Financial Reporting
(Prior Year Finding 2009-1) (Cont'd)

Effect or Potential Effect: Without timely financial statements, decision makers, such as the governing body, management, bondholders, creditors, granting agencies, and others may not have access to needed audited information in a timely manner. Further, without remediation, future financial statements issued by the City could contain material misstatements.

Recommendation: We recommend that the City explore additional training of existing staff, adding staff, outsourcing certain functions, or some combination thereof, in order to ensure that future financial statements are materially correct and made available in a timely fashion, both for internal managerial purposes and to ensure external filing deadlines imposed upon the City are met.

City's Response: With regards to capital assets, City staff will continue to do its best to work with Crawford and Associates, its accounting advisors, to determine how best to eliminate the problems it continues to have with reconciling capital assets. Staff will be receiving training from Crawford and Associates on booking capital assets within the next couple of months. Secondly, in regards to utility accounts receivable, City staff believes that the issues discussed have more to do with the reporting structure of the reports than anything else. The City's IT department is currently working on making these reports easier to interpret and understand. Finally, in regards to the City's employee retirement system, City staff does not believe that the scheduling issues were within their control. However, staff will continue to work diligently with the retirement system auditors to encourage a more timely production of the audit.

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
Year Ended June 30, 2010

Finding 2010-02 Controls Over Disbursements (Electronic Approvals)
(Prior Year Finding 2009-03)

Criteria: Internal controls should be designed to prevent the possibility of overriding the disbursement approval procedure.

Condition: Of 61 transactions tested for proper approval, 6 were found to have one person approving on behalf of both themselves and another required approver.

Cause: Under the current control system, the Financial Services Supervisor serves as one level of approval. However, she also serves as the backup approver for the Finance Director.

Effect or Potential Effect: Unauthorized purchases could be made and not be detected by management in a timely manner.

Recommendation: We recommend the policy be reviewed and that a person independent of the Financial Services department be selected to serve as backup to the Finance Director.

City's Response: The City's staff recognizes that in very few situations the accounting supervisor has approved requisitions for the finance director in his absence. However, it is the City's policy to have multiple authorizations before a requisition is processed and finally approved. Based on this comment the accounting supervisor will no longer approve requisitions for the finance director in his absence or be the sole approval source.

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
Year Ended June 30, 2010

Finding 2010-03 Activities Allowed / Allowable Costs

Federal Programs:
CFDA #
14.218 – Community Development Block Grants/Entitlement Grants
14.253 – Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded)
14.248 – Housing and Urban Development – Community Development Block Grant Section 108 Loan Guarantees
16.804 – Edward Byrne Memorial Justice Assistance Grant (JAG) – ARRA
66.458 – Capitalization Grants for Clean Water State Revolving Funds - ARRA
66.468 – Capitalization Grants for Drinking Water State Revolving Funds - ARRA
97.036 – Disaster Grants – Public Assistance

Criteria: Grant recipients are required to have in place a system of internal controls (policies and procedures) that provides reasonable assurance that federal awards are expended only for allowable activities and that the cost of goods and services charged to federal awards are allowable and in accordance with the specific cost principles. This includes designing controls to prevent the possibility of employees overriding the normal disbursement approval process.

Condition: Federal grant expenditures are processed through the same accounts payable system the City uses to process all City financial activity. The City has an electronic approval system for all invoices. However, under the current control system, one person can approve on behalf of both themselves and another required approver.

Questioned Costs: None

Cause: The Financial Services Supervisor serves as one level of approval. However, she also serves as the backup approver for the Finance Director.

Effect: Unauthorized purchases could be made and not be detected by management in a timely manner which could result in the expenditure of federal funds on unallowable costs or activities.

Recommendation: We recommend the policy be reviewed and that a person independent of the Financial Services department be selected to serve as backup to the Finance Director.

City's Response: The City is reviewing the policy and will make a determination at a later date on who best could approve these requisitions and serve as a backup for the Finance Director.

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
Year Ended June 30, 2010

Finding 2010-04 – Davis-Bacon Act

Federal Program: CFDA # 14.248 – Housing and Urban Development – Community Development Block Grant Section 108 Loan Guarantees

Criteria: When applicable, grant recipients are required to follow the requirements of the Davis-Bacon Act to ensure that construction contracts contain the necessary Davis-Bacon Act notification requirements and that contractor payrolls are timely obtained and reviewed for adherence to applicable approved wage rates.

Condition: The City has utilized HUD's Section 108 Loan Guarantee program as part of its financing arrangement for its *2nd Street Enhancement Project.* Additionally, the State of Oklahoma through the Oklahoma Department of Transportation is providing assistance through the Federal Highway Administration.

As reflected in a site visit report issued by the Federal Highway Administration-Oklahoma Division, as part of their monitoring of projects being assisted by the Oklahoma Department of Transportation, the City failed to ensure that sub-contractor contracts contained the necessary Davis-Bacon Act notification language. Additionally, it was noted that the City failed to timely obtain weekly certified payrolls from the contractor.

Questioned Costs: None

Cause and Effect: Internal controls in place over the Davis-Bacon Act requirements were not sufficient to ensure that those charged with project administration obtained certified payrolls on a weekly basis or to ensure that sub-contractor agreements contained the required Davis-Bacon Act reference language. As such, payrolls were not obtained in a manner such that exceptions in actual wage rates and approved wage rates would be detected and corrected in a timely manner.

Recommendation: We recommend that City management in charge of administering federal grants subject to the Davis-Bacon Act requirements review their internal controls over compliance with Davis-Bacon Act provisions to ensure that all contractor and sub-contractor contracts that are issued contain the required language. Additionally, controls should be reviewed to ensure that contractor and sub-contractor weekly payrolls and the required compliance certification statements are obtained on a weekly basis and that those payroll reports are compared to applicable approved wage rates.

City's Response: The City has determined that the required language is in the contracts and that a project inspector will be responsible for compliance with all payroll reports submitted.

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2009

Finding 2009-01 Controls Over Financial Reporting

Criteria: The City's financial reporting process has two overarching goals. First, the City's financial reporting process must faithfully represent the activity it purports to represent. Second, the information must be timely – that is making the audited financial information available to decision makers before it loses its capacity to influence decisions.

Condition: Over the past several years, in order to issue complete and fairly presented annual financial statements, material audit adjustments have been required to adjust the trial balances that are used to prepare the annual financial statements. In addition, complete and accurate working trial balances and related annual financial statement information have not been available for audit until six to nine months after the end of the fiscal year. More specifically, the first drafts of the balance sheets were not received until January 22, 2010. Further issues are as follows:

Capital assets – A significant number and magnitude of adjustments were required to the City's capital asset records. As a result of significant year-end reconciliations and related adjustments that were needed by City staff, accounting and reporting over the City's capital assets caused a significant delay in issuing the City's financial statements.

Long-term debt – Similar to capital assets above, a number of material adjustments were required to the City's long-term debt.

Cash Reconciliations – The City has an overly-complex cash management system that leads to entries not being booked in a timely manner, multiple AJE's being needed at each month-end in order to reconcile, and a complicated reconciliation process. Because of these underlying issues, there is not established process for review for clerical errors or approval of a supervisor. Several significant adjustments were needed at year-end in order to reconcile cash accounts and correct clerical errors within these reconciliations causing a significant delay in issuing the City's financial statements.

Annual close-out process – The City generally keeps it records on the budget basis of accounting to facilitate monthly budget and actual reporting. That is, revenues and expenditures in the City's governmental funds are typically recognized when cash is received or paid. For annual external reporting purposes, these internal reports must be manually converted by City staff to comply with more stringent and detailed applicable accounting standards for presentation of annual financial statements in accordance with generally accepted accounting principles. In performing this close-out, we have experienced significant difficulty in auditing the conversion or reconciliation schedules. The City should strive to make the entire process more transparent, provide an adequate audit trail of how amounts carry over and reconcile between schedules, and ensure the schedules properly add and balance.

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONT'D)
Year Ended June 30, 2009

Finding 2009-01 Controls Over Financial Reporting (Cont'd)

> ***City Employees Retirement System*** – The City's Employees Retirement System is included as a pension trust fund in the City's annual financial statements and therefore is subject to independent audit. The System's financial statements are audited by other auditors, whose report we rely upon in issuing our opinions on the City's reporting entity financial statements. Although we do not audit the System, it is our understanding the City experienced delays in providing the necessary information to the other auditors and that the report from the other auditors was not issued until March 22, 2010. While the matters noted above delayed issuance of the City's financial statements, a timely report on the retirement system is essential to issuing the City's financial statements in a timely fashion.

Cause: The City has undergone a significant accounting system conversion that has required a great deal of the resources and focus of the City's finance department over the past several years. This effort may explain a number of the individual issues noted above. However, in our observation, these issues considered collectively suggest that additional training of existing staff, adding additional staff, or outsourcing certain functions – or some combination thereof – is necessary to help the City staff improve the completeness, accuracy, and timeliness of annual financial reporting.

Effect or Potential Effect: Without timely financial statements, decision makers, such as the governing body, management, bondholders, creditors, granting agencies, and others may not have access to needed audited information in a timely manner. Further, without remediation, future financial statements issued by the City could contain material misstatements.

Recommendation: We recommend that the City explore additional training of existing staff, adding staff, outsourcing certain functions – or some combination thereof, in order to ensure that future financial statements are materially correct and made available in a timely fashion, both for internal managerial purposes and to ensure external filing deadlines imposed upon the City are met.

Corrective Action Plan FY-2009: The City has hired outside financial consultants to assist in the preparation and review of financial statements and support to be submitted to the auditor.

Current Status: See finding 2010-01.

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONT'D)
Year Ended June 30, 2009

Finding 2009-02 FEMA Allowable Costs
FEMA Grant CFDA# 97.036
Award Year 2008-2009

Criteria: Machinery and equipment costs submitted for reimbursement must be the correct FEMA-approved cost and equipment code.

Condition: The City has a hard-copy list of equipment sorted by equipment code and another list sorted by type of equipment. City personnel manually enter into a spreadsheet to be submitted to FEMA the equipment cost or associated code with the equipment used on a particular project.

Cause: The City does not require a second employee to review the equipment codes or costs entered.

Effect or Potential Effect: The City entered some equipment codes or costs incorrectly and submitted a schedule of allowable costs for expense reimbursement that was a higher amount (though immaterial) than the correct costs would have been.

Questioned Costs: None

Recommendation: Data that requires manual entry should be reviewed by a second individual prior to submission.

Corrective Action Plan FY-2009: In the future the City will attempt to submit electronically generated equipment cost to support projects. If the City has to manually convert data to electronic format for submission, a review and approval process will be implemented. The process will require a second person to verify the accuracy of the manually entered data.

Current Status: Comment resolved.

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONT'D)
Year Ended June 30, 2009

Finding 2009-03 Controls Over Disbursements (Electronic Approvals)

Criteria: Controls should be in place to prevent employees from overriding the normal disbursement approval procedure.

Condition: The City has an electronic approval system for all invoices. The particular invoice will not be paid until all the required approvals have been completed. However, there is nothing preventing a single employee from signing off in the place of all persons required.

Cause: The City's accounts payable system apparently captures all the data, but does not prevent an invoice from being paid if only one person has approved it.

Effect or Potential Effect: Unauthorized purchases could be made by the City through its employees and not be detected by management in a timely manner.

Recommendation: We recommend that the City review its system controls in order to prevent staff from overriding the controls.

Corrective Action Plan FY-2009: The Finance Department will work closely with outside consultants, the Information Technology Department, and the software company to develop and test IT controls to properly segregate duties related to approval of invoices. A different approval order is now in place.

Current Status: See finding 2010-02.

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONT'D)
Year Ended June 30, 2009

Finding 2009-04 Controls Over Encumbrances

Criteria: Pursuant to Oklahoma Statutes and the City's purchasing policy, expenditures are to be encumbered with a purchase order in advance of ordering the goods or services.

Condition: In our detailed testwork over disbursements, we noted instances whereby the purchase order appears to have been created, and thus the encumbrance made, after the goods or services were ordered and received by the City.

Cause: The City changed accounting systems, resulting in different protocols and standard operating procedures.

Effect or Potential Effect: Failure to timely encumber funds with an authorized purchase order can cause the City to over expend its budget or to incur unauthorized charges.

Recommendation: We recommend that the City review its purchasing processes to ensure that purchase orders are initiated and approved prior to ordering the related goods and services to ensure that purchases are authorized and budgeted.

Corrective Action Plan FY-2009: The City is continuing to address this concern and monitor purchases being made without prior approval. It is virtually impossible to eliminate 100 percent of this problem due to the employee's ability to purchase items from vendors that do not require purchase orders. However, accounting continues to notify department directors when they detect a violation of our policy.

Current Status: Comment resolved.