CITY OF LAWTON, OKLAHOMA

SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES

JUNE 30, 2013

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:	
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 *Governmental Auditing Standards*	1
Reports related to Federal Assistance Programs Required by OMB Circular A-133:	
Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	5
Notes to the Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	7
Summary Schedule of Prior Audit Findings and Corrective Action Plan	12

Arledge
& Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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*

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

We have audited, in accordance with the 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Lawton, Oklahoma, (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City's basic financial statements and have issued our report thereon dated July 10, 2014.

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

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 to be a material weakness as discussed in item 2013-01.

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*.

The City's Response to Findings

The City's response to the 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 the financial statements and, accordingly, we express no opinion on it.

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

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.

Arledge & Associates, P.C.

July 10, 2014

Arledge
& Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited 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, 2013, except for our report on the Schedule of Expenditures of Federal Awards, for which the date is December 10, 2014. 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 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 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each 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 each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-02. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance 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.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of 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 type of compliance requirement of a federal program 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 over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-02, that we consider to be a significant deficiency.

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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated July 10, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 and is not a required part of the basic 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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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.

Ardledge & Associates, P.C.

December 10, 2014, except for the Schedule of
Expenditures of Federal Awards required by
OMB Circular A-133, as to which the date is July 10, 2014

CITY OF LAWTON, OKLAHOMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2013

Federal Grantor/Pass through agency Grantor/Program Title	CFDA Number	Grant Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:			
CDBG-Entitlement Grants Cluster			
Community Development Block Grant/Entitlement Grants	14.218	B-10-MC-40-0001	$ 60,070
Community Development Block Grant/Entitlement Grants	14.218	B-11-MC-40-0001	713,216
Community Development Block Grant - ARRA	14.253	B-09-MY-40-0001	7,349
Subtotal CFDA 14.218 & 14.253 / CDBG Entitlement Grants Cluster			780,635
Community Development Block Grant - State's Program and Non-Entitlement Grant	14.228	B-08-DN-4-0001	4,596
Home Investment Partnerships Program	14.239	M-08-MC-40-0201	5,378
Home Investment Partnerships Program	14.239	M-09-MC-40-0201	1,057
Home Investment Partnerships Program	14.239	M-10-MC-40-0201	327,243
Subtotal CFDA 14.239			333,678
Total U.S. Department of Housing and Urban Development			**1,118,909**
U.S. DEPARTMENT OF JUSTICE:			
Edward Byrnes Memorial Formula Grant Program	16.738	2009-DJ-BX-0830	12,030
Edward Byrnes Memorial Formula Grant Program	16.738	2010-DJ-BX-0482	5,878
Edward Byrnes Memorial Formula Grant Program	16.738	2011-DJ-BX-2943	82,024
Subtotal CFDA 16.579			99,932
Edward Byrnes Memorial Formula Grant Program - ARRA	16.804	2009-SB-BP-3100	40,753
Public Safety Partnership and Community Policing Grant	16.710	2010UMWX0252	395,792
Total U.S. Department of Justice			**536,477**
U.S. DEPARTMENT OF TRANSPORTATION			
Federal Transit Formula Grants	20.507	OK-90-X108	55,935
Federal Transit Formula Grants	20.507	OK-90-X110	1,110,335
Federal Transit Formula Grants	20.507	OK-90-X114	477,462
Federal Transit Formula Grants	20.507	OK-96-0001	66,688
Subtotal CFDA 20.507			1,710,420
Pass through Oklahoma Highway Safety Department			
Highway Planning and Construction Formula Grants	20.205	STP-116E(183)EH	477,283
Transit Services Programs:			
Jobs Access and Revese Commute Program	20.516	OK-37-X039	281,477
New Freedom Program	20.521	OK-57-X018	135,000
Subtotal CFDA 20.516 & 20.521/Transit Services Programs			416,477
State and Community Highway Safety	20.600	K8-12-03-22-09	6,591
State and Community Highway Safety	20.600	PT-12-03-17-09	9,086
State and Community Highway Safety	20.600	CE-12-03-14-09	109
State and Community Highway Safety	20.600	K8-13-03-14-10, AK-13-03-02-10, CE-13-03-14-10	9,346
Subtotal CFDA 20.600			25,132
Total U.S. Department of Transportation			**2,629,312**
U.S. DEPARTMENT OF HOMELAND SECURITY			
State Homeland Security Program - Regional Response System Sustainment	97.083	EMW-2008-FF-01189	663,165
Total Department of Homeland Security			**663,165**
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Retired and Senior Volunteer Program	94.002	10SRWOK005	22,456
Total Corporation for National and Community Service			**22,456**
Total Federal Awards			**$ 4,970,319**

CITY OF LAWTON, OKLAHOMA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2013

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, 2013. 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.

CITY OF LAWTON, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
Material weakness(es) identified? X yes ____ no
Significant deficiency(ies) identified
not considered to be material weakness(es)? ____ yes X 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: Unmodified

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 Grants/Entitlement Grants Program
14.239	Home Investment Partnerships Program
16.710	Public Safety Partnership and Community Policing Grant
20.205	Highway Planning and Construction
97.083	Staffing for Adequate Fire and Emergency Response

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, 2013

SECTION II – FINANCIAL STATEMENT FINDINGS

Compliance Findings

None

Internal Control Findings

2013-01

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Compliance Findings

2013-02

Internal Control Findings

2013-02

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

Finding 2013-01 Controls over Financial Reporting

Criteria: The City's management is responsible for ensuring the accuracy and completeness of financial records and related information as well as ensuring that the information is delivered timely.

Condition: Component units were not appropriately included or disclosed. Bank accounts were not appropriately identified or properly included in the financial records.

> Component units – All entities for which the City is financially accountable and/or fiscally responsible must be included as part of the City's financial reporting entity. Lawton Urban Renewal Authority was not included in the financial statements. It had previously been disclosed in the footnotes as a related organization. The Lawton Enhancement Trust Authority had not been addressed, either as a component unit or as a related organization, in the City's financial reports. Both Authorities were included in the City's financial reporting entity during audit fieldwork.
>
> Bank accounts – Bank accounts belonging to the Lawton Economic Development Authority were not included in its financial records. Further, these accounts were not readily identifiable for delivery to auditors upon request. Activity within the accounts was added as audit adjusting entries during the audit.

Cause: The requirement for, and value of, accurate, timely financial reporting is not understood and appreciated across all departments, component units, management, and governance officials. In addition, the City's financial reporting function is not centralized. Further, within the Financial Services Department, not all records are maintained on the same systems and with the same controls.

Effect or Potential Effect: Financial statements may be issued which are incomplete, inaccurate and misleading. Significant additions and findings during the audit process slow the issuance of financial reports. Without timely financial statements the governing body, management, bondholders, creditors, granting agencies, and others may not have access to needed audited information. Decision makers may make decisions adversely affecting the City's well-being without fully understanding the City's financial position.

Recommendation: The City should increase controls over financial reporting. A first step should be to identify all potential component units and ensure that they are properly accounted for in accordance with standards issued by the Governmental Accounting Standards Board. In addition, all bank accounts belonging to the City or its component units should be identified and included in the appropriate financial records. Additional competent staff, additional training for existing staff, and increased use of outside consultants within Financial Services is required to ensure proper controls are implemented, monitored, and maintained. The City should also address communication within and between departments and trust authorities to ensure future entities and accounts are included in the financial records and that financial reporting deadlines are met. Further, training regarding financial reporting requirements should be provided for all supervisors, managers, and governing bodies for the entire reporting entity. Finally, elected officials, governing boards, and senior management should adopt an expectation of stringent compliance with controls over financial reporting.

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
Year Ended June 30, 2013

Finding 2013-01 Controls over Financial Reporting (Cont'd)

City's Response:

Previously the City used outside accounting firms to handle the accounting for its component units. The decision was made in early 2014 to move this function back in house. During this transition City staff discovered an unidentified bank account. A representative of the Finance Department now attends all Board meetings of the various component units. Additional accounting staff have been hired and a training program has been implemented.

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
Year Ended June 30, 2013

Finding 2013-02: Misappropriation of Assets

Federal Program: CFDA 14.239 – Home Investment Partnerships Program (HOME)

Criteria: Consistent with the requirements in OMB Circular A-133, internal controls over major programs should be designed and monitored to prevent and detect fraud.

Condition: Funds received by the Community Service Department were not subsequently deposited into the City's cash accounts.

Questioned Costs: $18,295

Cause and Effect: The City's internal controls for CFDA 14.239, Home Investment Partnership Program, were not effective, allowing a City employee access to receive and deposit funds. It appears the employee misappropriated the funds for personal gain.

Recommendation: We recommend the City implement pre-numbered receipts that are reconciled to the deposits and bank statement on a monthly basis and separate the cash collection function from the deposit function. We further recommend the City implement a policy where all payments collected in the Community Services Department are in the form of checks or money orders with all payments in cash directed to the City's cash receipt system in the utility or other payment area.

City's Response:

The Community Services Department no longer accepts cash. They now use numbered receipt books. The receipts and the deposit are taken to Financial Services. The receipts must have dual initials before they will be accepted.

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN
Year Ended June 30, 2013

The City of Lawton, Oklahoma respectfully submits the following summary schedule of prior audit findings and corrective action plan for the year ended June 30, 2013.

Name and address of independent public accounting firm: Arledge and Associates, P.C., 309 N. Bryant Avenue, Edmond, Oklahoma 73034.

Audit period: July 1, 2012 to June 30, 2013.

Summary Schedule of Prior Audit Findings
There were no audit findings for the year ended June 30, 2012 that require preparation of a summary of prior audit findings.

Corrective Action Plan
No corrective action plan is required.

Questions regarding this plan should be addressed to Brooks Mitchell at 212 SW 9th Street, Lawton, Oklahoma or by phone at (580) 581-3328.