

**a<sup>2</sup>** | **Arledge**  
& Associates, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

**CITY OF LAWTON, OKLAHOMA**  
**SINGLE AUDIT REPORTS**  
**AND SUPPLEMENTARY SCHEDULES**

**JUNE 30, 2011**

**CITY OF LAWTON, OKLAHOMA**

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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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 20, 2012. 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**

Management of the City is responsible for establishing and maintaining effective 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.

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 2011-01 to be a material weakness.

**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.

*Adage Associates, P.C.*  
Edmond, Oklahoma  
July 20, 2012



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, 2011. 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, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements which is 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 2011-02.

**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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

*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.

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 Finding 2011-02. *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 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 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, 2011, and have issued our report thereon dated July 20, 2012, 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 the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic 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.

*Robert H. Associates, P.C.*  
Edmond, Oklahoma  
July 20, 2012



**City of Lawton, Oklahoma**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2011

<u>Federal Grantor/Pass through agency</u> <u>Grantor/Program Title</u>	<u>CFDA</u> <u>Number</u>	<u>Grant</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>			
<b>CDBG-Entitlement Grants Cluster</b>			
Community Development Block Grant	14.218	B-09-MC-40-0001	\$ 614,947
Community Development Block Grant	14.218	B-10-MC-40-0001	267,469
Community Development Block Grant - ARRA	14.253	B-09-MY-40-001	18,751
Subtotal CFDA 14.218 & 14.253 / CDBG Entitlement Grants Cluster			<u>901,167</u>
Community Development Block Grant - Brownfields Economic Development Initiative	14.246	B-06-BD-04-006	500,000
Community Development Block Grant - Section 108	14.248	B-06-MC-40-001	1,055,943
Oklahoma Neighborhood Stabilization Program	14.228	B-08-DN-04-0001	717,554
Home Investment Partnerships Program	14.239	M-06-MC-40-0201	32,000
Home Investment Partnerships Program	14.239	M-07-MC-40-0201	46,759
Home Investment Partnerships Program	14.239	M-08-MC-40-0201	218,486
Home Investment Partnerships Program	14.239	M-09-MC-40-0201	159,079
Subtotal CFDA 14.239			<u>456,324</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u><b>3,630,988</b></u>
<b>U.S. DEPARTMENT OF JUSTICE:</b>			
Edward Byrnes Memorial Formula Grant Program	16.579	2009-DJ-BX-0830	21,000
Edward Byrnes Memorial Formula Grant Program	16.579	2010-DJ-BX-0482	40,642
Edward Byrnes Memorial Formula Grant Program - ARRA	16.804	2009-SB-BP-3100	200,409
Bulletproof Vest Partnership Program	16.607	2009-BUBX04023433	16,783
<b>Total U.S. Department of Justice</b>			<u><b>278,834</b></u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
<b>Pass through Oklahoma Highway Safety Department</b>			
State and Community Highway Safety	20.600	PT-10-03-20-07	14,913
State and Community Highway Safety	20.600	OP-11-03-06-08	40,171
Subtotal CFDA 20.600			<u>55,084</u>
Highway Planning and Construction Formula Grants	20.205	STP-116E(130)EH	385,158
Highway Planning and Construction Formula Grants	20.205	STP-116E(151)EH	261,459
Highway Planning and Construction Formula Grants	20.205	STP-116E(177)HP	238,672
Subtotal CFDA 20.205			<u>885,289</u>
<b>Federal Transit-Cluster</b>			
Federal Transit Formula Grants	20.507	OK-03-0042	2,537
Federal Transit Formula Grants	20.507	OK-04-0009	288,564
Federal Transit Formula Grants	20.507	OK-90-X099	615,107
Federal Transit Formula Grants - ARRA	20.507	OK-96-0001	1,252,681
Federal Transit Formula Grants	20.507	OK-90-X103	983,951
Subtotal CFDA 20.507			<u>3,142,860</u>
<b>Total Federal Transit-Cluster</b>			<u><b>3,142,860</b></u>
<b>Total U.S. Department of Transportation</b>			<u><b>4,083,233</b></u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Disaster Grants - Public Assistance (Note 3)	97.036	FEMA-PA-1883 PW790	37,266
Disaster Grants - Public Assistance (Note 3)	97.036	FEMA-PA-1883 PW638	35,420
Disaster Grants - Public Assistance (Note 3)	97.036	FEMA-PA-1883 PW785	441,400
Disaster Grants - Public Assistance (Note 3)	97.036	FEMA-PA-1883 PW626 & 627	9,869
Disaster Grants - Public Assistance (Note 3)	97.036	FEMA-PA-1883 PW1024	47,293
Subtotal CFDA 97.036			<u>571,248</u>
State Homeland Security Program - Regional Response System Sustainment	97.073	112.010	3,537
Assistance to Firefighters Grant - SAFR Grant	97.044	EMW-2008-FF-01189	247,197
<b>Total Department of Homeland Security</b>			<u><b>821,982</b></u>

Continued...

**City of Lawton, Oklahoma**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
Year Ended June 30, 2011

<u>Federal Grantor/Pass through agency Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditures</u>
<b>DEPARTMENT OF DEFENSE</b>			
Community Economic Adjustment Assistance for Establishment, Expansion Realignment, or Closure of a Military Installation	12.607	RA06105-07-02	13,436
<b>Total Department of Defense</b>			<b>13,436</b>
<b>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</b>			
Retired and Senior Volunteer Program	94.002	07SRWOK003	28,070
<b>Total Corporation for National and Community Service</b>			<b>28,070</b>
<b>U.S. DEPARTMENT OF ENERGY</b>			
Energy Efficiency Block Grant - ARRA	81.128	DE-SD0003144	780,490
<b>Total U.S. Department of Energy</b>			<b>780,490</b>
<b>ENVIRONMENTAL PROTECTION AGENCY</b>			
<b>Pass through Oklahoma Water Resources Board</b>			
Capitalization Grants for Drinking Water State Revolving Funds - ARRA	66.468	ORF-09-0014-DW	666,722
Capitalization Grants for Clean Water State Revolving Funds - ARRA	66.458	ORF-09-0015-CW	1,187,787
<b>Total Environmental Protection Agency</b>			<b>1,854,509</b>
<b>Total Federal Awards</b>			<b>\$ 11,491,542</b>

**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, 2011. 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 Policies**

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, 2011**

**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)?   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: 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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant – Entitlement Grants Cluster
14.253	Community Development Block Grant – Entitlement Grants Cluster-ARRA
14.248	Community Development Block Grant – Section 108
14.228	Community Development Block Grant – Oklahoma Neighborhood Stabilization Program
14.246	Community Development Block Grant – Brownfields Economic Development Initiative
14.239	Community Development Block Grant – Home Investment Partnership Program
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)

**CITY OF LAWTON, OKLAHOMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011**

SECTION I – SUMMARY OF AUDITOR'S RESULTS (Cont'd)

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.507	Federal Transit Formula Grants
20.507	Federal Transit Formula Grants – ARRA
20.205	Highway Planning and Construction Formula Grants
81.128	Energy Efficiency and Conservation Block Grant Program - ARRA

Dollar threshold used to distinguish  
between Type A and Type B programs: \$ 344,746

Auditee qualified as low-risk auditee?        yes   X   no

**CITY OF LAWTON, OKLAHOMA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

2011-01

**SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS**

Compliance Findings

2011-02

Internal Control Findings

2011-02

**CITY OF LAWTON, OKLAHOMA**

**SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011**

**Finding 2011-01 Controls Over Financial Reporting  
(Prior Year Finding 2010-1)**

*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 March 22, 2012. Further issues are as follows:

*Capital assets* – A significant number and magnitude of adjustments were required to the City's capital asset records, including adjustments to record mortgage receivables associated with the City's neighborhood stabilization program. 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.

*Cause:* In regards to capital assets and the preparation of working trial balances, additional training, staff, or outsourcing – or some combination thereof – is needed.

*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 regard to capital assets, the City Staff continues to work with Crawford and Associates, its accounting advisors, to determine how to best eliminate the problems it continues to have with reporting issues since converting to a new accounting and revenue services software. The issues discussed have more to do with reporting structure of reports than anything else. Staff continues to work diligently with Crawford and Associates to produce a timely audit.

**CITY OF LAWTON, OKLAHOMA**

**SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)  
Year Ended June 30, 2011**

**Finding 2011-02 Davis-Bacon Act**

*Federal Program:* CFDA # 20.205 – Highway Planning and Construction

*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 funding from the State of Oklahoma through the Oklahoma Department of Transportation is providing assistance through the Federal Highway Administration for its *2<sup>nd</sup> Street Enhancement Project, Intermodal Transportation Museum, and Downtown Revitalization.*

*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 Response:* The City now requires contractors to include in any subcontracts the general and labor provisions of the City to include adherence to the Davis Bacon Act requirements. Contractor and subcontractors are required to submit weekly certified payrolls to the City for review and approval under these labor provisions in accordance with CFR section 3 title 29. All construction contracts are to be managed through the Engineering division to provide proper oversight of general and labor provisions of the City and grant requirements.

**CITY OF LAWTON, OKLAHOMA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2010**

**Finding 2010-01 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, 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 PRIOR AUDIT FINDINGS (CONT'D)**

**Year Ended June 30, 2010**

**Finding 2010-01 Controls Over Financial Reporting (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/Corrective Action Plan FY-2010:* 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.

*Current Status:* See Finding 2011-01.

**CITY OF LAWTON, OKLAHOMA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONT'D)  
Year Ended June 30, 2010**

**Finding 2010-02 Controls Over Disbursements (Electronic Approvals)**

*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/Corrective Action Plan FY-2010:* 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.

*Current Status:* The internal approval policy procedure was followed. The auditors concern is with who is the backup approver in the absence of the City Manager and the Finance Director. The City has reorganized its informal backup approval order so that one person doesn't approve for both the Finance Director and the City Manager in their absence. A different backup approval order is now in place. Comment resolved.

**CITY OF LAWTON, OKLAHOMA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (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/Corrective Action Plan FY-2010:* 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.

*Current Status:* The City of Lawton reviewed the electronic routing approval order. A different routing approval process is now in place. The Financial Services Supervisor remains the backup approver for the Finance Director, however the supervisor no longer approves purchases as the purchasing supervisor. The accountant approves as the purchasing supervisor. Comment resolved.

**CITY OF LAWTON, OKLAHOMA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (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 2<sup>nd</sup> 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/Corrective Action Plan FY-2010:* 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.

*Current Status:* The City now requires contractors to include in any subcontracts the general and labor provisions of the City to include adherence to the Davis Bacon Act requirements. Contractor and subcontractors are required to submit weekly certified payrolls to the City for review and approval under these labor provisions in accordance with CFR section 3 title 29. Comment resolved.