

CITY OF LAWTON, OKLAHOMA
SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES

JUNE 30, 2012

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, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 17, 2013. 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 the Lawton Metropolitan Area Airport Authority, the Lawton Arts and Humanities Council, the McMahon Auditorium Authority, the Museum of the Great Plains Trust Authority, the Lawton Metropolitan Planning Organization, 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined previously.

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*.

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

April 17, 2013



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, 2012. 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, 2012.

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.

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, 2012, and have issued our report thereon dated April 17, 2012, which contained unqualified opinions on those financial statements. Our audit was conducted 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 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 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.

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.

Arledge & Associates, P.C.
Edmond, Oklahoma
April 17, 2013

CITY OF LAWTON, OKLAHOMA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

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 Grants / Entitlement Grants	14.218	B-10-MC-40-0001	\$ 784,209
Community Development Block Grant - ARRA	14.253	B-09-MY-40-0001	1,079
Community Development Block Grants / State's Program	14.228	B-08-DN-04-0001	43,043
Home Investment Partnerships Program	14.239	M-07-MC-40-0201	20,000
Home Investment Partnerships Program	14.239	M-08-MC-40-0201	6,487
Home Investment Partnerships Program	14.239	M-09-MC-40-0201	312,184
Home Investment Partnerships Program	14.239	M-10-MC-40-0201	48,805
Subtotal CFDA 14.239			<u>387,476</u>
Total U.S. Department of Housing and Urban Development			<u>1,215,807</u>
U.S. DEPARTMENT OF JUSTICE			
Edward Byrnes Memorial Formula Grant Program	16.579	2009-DJ-BX-0830	6,435
Edward Byrnes Memorial Formula Grant Program	16.579	2010-DJ-BX-0482	73,152
Edward Byrnes Memorial Formula Grant Program	16.579	2011-DJ-BX-2943	4,637
Edward Byrnes Memorial Formula Jag Program - ARRA	16.804	2009-SB-BP-3100	51,464
Public Safety Partnership and Community Policing Grants	16.710	2010-LM-WX-0252	356,002
Total U.S. Department of Justice			<u>491,690</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Pass through Oklahoma Department of Transportation			
Job Access and Reverse Commute	20.516	OK-37-X029	275,092
Subtotal CFDA 20.205			<u>275,092</u>
Pass through Oklahoma Highway Safety Department			
State and Community Highway Safety	20.600	OP-11-03-06-08	32,694
State and Community Highway Safety	20.600	K8-12-03-22-09	12,484
State and Community Highway Safety	20.600	PT-12-03-17-09	14,584
State and Community Highway Safety	20.600	CE-12-03-14-09	164
Subtotal CFDA 20.600			<u>59,926</u>
Federal Transit-Cluster			
Federal Transit Capital Investment Grants	20.500	OK-04-0009	285,408
Federal Transit Capital Investment Grants	20.500	OK-90-X103	445,551
Federal Transit Formula Grants	20.507	OK-90-X099	8,962
Federal Transit Formula Grants	20.507	OK-90-X106	209,300
Federal Transit Formula Grants	20.507	OK-90-X108	557,844
Federal Transit Formula Grants	20.507	OK-90-X110	25,427
Federal Transit Formula Grants - ARRA	20.507	OK-96-0001	105,839
Total Federal Transit-Cluster			<u>1,638,331</u>
Total U.S. Department of Transportation			<u>1,973,349</u>
U.S. DEPARTMENT OF ENERGY			
Energy Efficiency and Conservation Block Grant - ARRA	81.128	DE-SD0003144	75,510
Total U.S. Department of Energy			<u>75,510</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Disaster Grants - Public Assistance	97.036	07-SRW-OK-003	12,690
Disaster Grants - Public Assistance	97.036	10-SRW-OK-005	24,482
Subtotal CFDA 97.036			<u>37,172</u>
Assistance to Firefighters Grant	97.044	EMW-2008-FF-01189	103,939
Total U.S. Department of Homeland Security			<u>141,111</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Retired and Senior Volunteer Program	94.002	07SRWOK003	16,842
Total Corporation for National and Community Service			<u>16,842</u>
Total Federal Awards			<u>\$ 3,914,309</u>

CITY OF LAWTON, OKLAHOMA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012**

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, 2012. The information in this schedule is presented in accordance with requirements of the OMB Circular A-133. 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.

CITY OF LAWTON, OKLAHOMA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

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? _____ yes X 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)? _____ yes X 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)? _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
16.710	Public Safety Partnership and Community Policing Grants
20.516	Job Access and Reverse Commute

Federal Transit-Cluster	
20.500	Federal Transit Capital Investments Grants
20.507	Federal Transit Formula Grants
20.507	Federal Transit Formula Grants – ARRA

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, 2012**

SECTION II – FINANCIAL STATEMENT FINDINGS

Compliance Findings

None.

Internal Control Findings

None

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Compliance Findings

None

Internal Control Findings

None

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2011

Finding 2011-01 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 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 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.

Current Status: Based on results of current year test work, issue considered resolved.

CITY OF LAWTON, OKLAHOMA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (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 and assistance through the Federal Highway Administration for its 2nd 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.

Current Status: Based on results of current year test work, issue considered resolved.