

City of Lawton

Single Audit Reports

Year Ended June 30, 2018



City of Lawton
June 30, 2018

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City of Lawton
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Grant or Other Identifying Number	Passed Through to Subrecipients	Total Federal Expenditure
<u>U.S. Department of Housing and Urban Development</u>					
<i>CDBG - Entitlement Grants Cluster</i>					
Community Development Block Grant/Entitlement Grants	14.218		B-14-MC-40-0001 B-15-MC-40-0001 B-16-MC-40-0001 B-17-MC-40-0001	\$ - - - -	\$ 131,669 51,429 256,625 153,710
<i>Total CDBG - Entitlement Grants Cluster</i>				-	<u>593,433</u>
Home Investment Partnerships Programs	14.239		M-11-MC-40-0201 M-13-MC-40-0201 M-14-MC-40-0201 M-15-MC-40-0201 M-16-MC-40-0201	- - - - -	203,007 69,935 7,833 68,118 76,173
Total U.S. Department of Housing and Urban Development				-	<u>1,018,500</u>
<u>U.S. Department of Justice</u>					
Edward Byrne Memorial Justice Assistance Grant Program	16.738		2016-DJ-BX-0176	-	14,530
Total U.S. Department of Justice				-	<u>14,530</u>
<u>National Community Service Agency</u>					
Retired and Senior Volunteer Program	94.002		13SRWOK002	-	36,219
Total National Community Service Agency				-	<u>36,219</u>
<u>Federal Emergency Management Agency</u>					
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		PA-06-OK-4222-PW-01228(0) PA-06-OK-4222-PW-01211(0)	- -	53,379 24,292
Total Federal Emergency Management Agency				-	<u>77,671</u>
<u>U.S. Federal Highway Administration</u>					
<i>Highway Safety Cluster</i>					
Oklahoma Highway Safety Department/ Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.600	AL-17-03-04-14 AL-18-03-03-15		- -	9,714 79,014
<i>Total Highway Safety Cluster</i>				-	<u>88,728</u>
Total U.S. Federal Highway Administration				-	<u>88,728</u>

City of Lawton
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Grant or Other Identifying Number	Passed Through to Subrecipients	Total Federal Expenditure
<u>U.S. Department of Transportation</u>					
<i>Federal Transit Cluster</i>					
Federal Transit - Formula Grants (Urbanized Area Formula Program)	20.507		OK-90-X128 OK-90-X130 OK-90X-134 OK-90X-136	\$ - - - -	\$ 173,038 31,685 988,469 274,448
<i>Total Federal Transit Cluster</i>				-	1,467,640
<i>Highway Planning and Constructions Cluster</i>					
Oklahoma Department of Transportation/ Highway Planning and Construction	20.205	STP-116E(184)EH CMA 216E (057)LC		- -	348 57,081
<i>Total Highway Planning and Construction Cluster</i>				-	57,429
Total U.S. Department of Transportation				-	1,525,069
<u>U. S. Department of Homeland Security</u>					
State Homeland Security (Grant) Program (SHSP)	97.073		740.15 940.015	- -	9,978 26,190
Total U.S. Department of Homeland Security				-	36,168
Total Expenditures of Federal Awards				\$ -	\$ 2,797,184

City of Lawton
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City of Lawton, Oklahoma (the City) under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 position or cash flows of the City.
2. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. The grant accounts are maintained on a fund basis. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87 *Cost Principles for State, Local and Indian Tribe Governments*, or the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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*

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Lawton, Oklahoma as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 14, 2019. Our report includes a reference to other auditors who audited the financial statements of the Lawton Urban Renewal Authority, 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, as described in our report on the City's financial statements. 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 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 have not been 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.

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

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 City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-003 and 2018-005 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-002, 2018-004, 2018-006, 2018-007 and 2018-008 to be significant deficiencies.

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 Responses to Findings

The City's response to the findings identified in our audit are 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.

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.

BKD, LLP

Rogers, Arkansas
February 14, 2019

**Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

Independent Auditor's Report

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

Report on Compliance for the Major Federal Program

We have audited the City of Lawton, Oklahoma's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended June 30, 2018. The City's major federal program is 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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the major federal program. However, our audit does not provide a legal determination of the City's compliance.

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

Opinion on the Major Federal Program

In our opinion, the City of Lawton, Oklahoma complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the City of Lawton, Oklahoma 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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 a 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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 as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated February 14, 2019, which contained an unmodified opinion on those financial statements and a reference to the reports of other auditors. 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 the Uniform Guidance 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 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 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.

BKD, LLP

Rogers, Arkansas
March 12, 2019, except for the paragraph on the
Schedule of Expenditures of Federal Awards,
which is February 14, 2019

City of Lawton
Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies) identified? Yes None reported

Material weakness(es) identified? Yes No

3. Noncompliance considered material to the financial statements? Yes No

Federal Awards

4. Internal control over major federal program:

Significant deficiency(ies) identified? Yes None reported

Material weakness(es) identified? Yes No

5. Type of auditor's report issued on compliance for major federal program:

Unmodified Qualified Adverse Disclaimer

6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes No

City of Lawton
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2018

7. Identification of major federal program:

Cluster/Program	CFDA Number
Federal Transit Cluster/Federal Transit – Formula Grants (Urbanized Area Formula Program)	20.507

8. Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.

9. The City qualified as a low-risk auditee? Yes No

City of Lawton
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2018

Section II – Financial Statement Findings

Reference Number	Finding
2018-001	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The City’s annual audited financial statements are prepared in conformity with generally accepted accounting principles (GAAP). The City’s budgetary basis accounting system does not support an effective and efficient conversion from the budgetary basis of accounting to the GAAP basis of financial reporting.</p> <p>Context – Accurate GAAP basis financial statements are critical to communicating financial position and results of operations to the citizens of the City and other interested parties.</p> <p>Effect – Adjusting entries were required during the audit process to correct the City’s accounting records. The current system also significantly complicates the process of building and supporting year-end GAAP basis financial statements, impacting the timeliness of preparing and issuing the year-end audited GAAP basis financial statements.</p> <p>Cause – The current accounting system does not facilitate GAAP basis.</p> <p>Recommendation – We recommend the City identify options for improving the GAAP basis financial statement preparation process and the other specific system issues identified above.</p> <p>Views of Responsible Officials and Planned Corrective Actions – We agree. Given the limitations of the City’s GEMS system, subsequent to the fiscal year ended June 30, 2018, additional procedures have been implemented to require formal procedures and documentation of the review and approval of posting journal entries and updates made to vendor master files. A periodic review of capital assets is also part of these additional procedures. The City is now in the process of attempting to identify a long-term solution for replacement of the current accounting system. Once identified, conversion to a new system may take significant time due to budgetary funding or constraint issues as well as new system conversion and implementation.</p>

City of Lawton
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2018

Reference Number	Finding
2018-002	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The City does not have formal accounting policies and procedures over the City’s accounting and internal control processes, and current processes and procedures may not effectively limit duties to minimize risks associated with segregation of duties. The City’s system also allows one individual to post journal entries without required review and approval and does not require the formal review and approval of changes to the City’s vendor master files.</p> <p>Context – Accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties.</p> <p>Effect – Misstatements in the financial statements resulting from errors that occurred and were not detected and/or corrected in a timely manner created the need to record audit adjustments to correct the errors.</p> <p>Cause – Certain deficiencies in the overall financial statement preparation and review process allowed for undetected errors to occur. The current accounting system does not provide effective review of adjusting journal entries and changes to vendor master files.</p> <p>Recommendation – We recommend the financial services department evaluate the need to implement additional accounting policies and internal control procedures to strengthen the department’s ability to accurately prepare GAAP basis financial statements for the City and related component units. In this process, the City should also evaluate the segregation of duties of financial services department personnel in order to minimize the potential risk associated with limited segregation of duties and evaluate its current system to identify options to improve the review of changes to master files and journal entries.</p> <p>Views of Responsible Officials and Planned Corrective Actions – We agree. Subsequent to the fiscal year ended June 30, 2018, as noted in the response to the prior finding, additional procedures have been implemented to require formal procedures and documentation of the review and approval of posting journal entries and updates made to vendor master files. Additionally, during the latter half of Fiscal Year 2018, an organizational restructuring of the City’s Finance Department occurred and additional personnel were added that, in part, should effectively limit the duties of certain staff so as to minimize the risks associated with the segregation of duties.</p>

City of Lawton
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2018

Reference Number	Finding
2018-003	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The City was unable to complete accounts receivable, inventory, capital assets, investment or bank reconciliations timely in 2018 due to limitations in staffing and the August 2017 data breach.</p> <p>Context – Timely reconciliation of account balances is crucial to the internal control process to detect and correct potential adjustments and to identify potential misappropriation or misuse of assets.</p> <p>Cause – Due to limitations in staffing, the City fell behind on reconciliations of accounts receivable, inventory, capital assets, investments and bank reconciliations.</p> <p>Effect – The bank reconciliations were up to eleven months behind schedule in 2018, which resulted in the City being unable to timely identify and correct material adjustments and could have resulted in the City being unable to timely identify misappropriation or misuse of assets.</p> <p>Recommendation – We recommend the financial services department evaluate the need to implement additional accounting policies and internal control procedures to strengthen the department’s ability to accurately prepare GAAP basis financial statements for the City and related component units and to make sure that reconciliations, which are crucial internal control procedures, are performed and reviewed timely. In this process, the City should also evaluate the segregation of duties of financial services department personnel in order to minimize the potential risk associated with limited segregation of duties and evaluate its current system to identify options to improve the review of changes to master files and journal entries.</p> <p>Views of Responsible Officials and Planned Corrective Actions – We agree. The City has made concerted efforts to catch up on the reconciliation process during the year and has remained up-to-date on reconciliations in 2019.</p>

City of Lawton
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2018

Reference Number	Finding
2018-004	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over the Schedule of Federal Awards (SEFA).</p> <p>Condition – The City does not have review and approval processes implemented to prevent misstatements of the SEFA schedule.</p> <p>Context – An accurate SEFA is critical in the selection of major programs.</p> <p>Cause – The City’s controls regarding the preparation, review and approval of the SEFA did not operate effectively.</p> <p>Effect – The City’s SEFA could be reporting inaccurate federal expenditures and inaccurate CFDA numbers. In addition, the schedule may be incomplete due to unknown awards. An inaccurate SEFA could result in major programs not being properly tested each year.</p> <p>Recommendation – We recommend the financial services department evaluate the need to implement additional account that the City evaluate and implement enhancements to its controls, to the extent necessary, to ensure that the SEFA is complete and accurate.</p> <p>Views of Responsible Officials and Planned Corrective Actions – We agree. The City is working on implementing and documenting appropriate controls regarding the preparation, review and approval of the SEFA to ensure accurate schedules. When a grant is awarded, departments have been instructed to go through the Finance Director for review.</p>

City of Lawton
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2018

Reference Number	Finding
2018-005	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The City recorded a prior period adjustment to correctly record governmental assets that were placed into service in prior years, which resulted in an adjustment to record depreciation from prior years, and to remove certain construction in progress projects recorded at prior year end which were not capital assets. The City also recorded a prior period adjustment to remove an asset included in business-type activities and enterprise fund infrastructure that was duplicated in governmental activities infrastructure in the prior year. The prior period adjustments reduced capital assets for governmental activities approximately \$5 million and \$3.4 million for business-type activities and enterprise funds. BKD also noted that Internal Audit did not perform the annual review of the physical count or re-count of assets by department supervisors. Finally, BKD noted certain instances where accumulated depreciation is not being calculated correctly and the capitalization policy was not being followed.</p> <p>Context – Accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties.</p> <p>Cause – The controls currently in place are not adequate, are not being performed timely or are not functioning effectively.</p> <p>Effect – Material misstatements in the financial statements resulting from errors that occurred and were not detected and/or corrected in a timely manner created the need to record adjustments in the current year to correct the errors. Timely reconciliation of the capital asset activity did not occur in the prior year or current year due to limitations on staffing.</p> <p>Recommendation – We recommend the City evaluate and implement enhancements to its controls, to the extent necessary, to ensure that accurate financial statements are produced.</p> <p>Views of Responsible Officials and Planned Corrective Actions – We agree. The City will review its current procedures and consider areas for improvement to prevent and detect future misstatements.</p>

City of Lawton
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2018

Reference Number	Finding
2018-006	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Adjustments were made to correct accounts payable balances following completeness testing. Additionally, adjustments were made to agree the trial balance to the underlying accounts payable detail.</p> <p>Context – Accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties.</p> <p>Cause – The controls currently in place are not adequate, are not being performed timely or are not functioning effectively.</p> <p>Effect – Multiple misstatements in the financial statements resulting from errors that occurred and were not detected and/or corrected in a timely manner created the need to record adjustments in the current year to correct the errors. Timely reconciliation of the accounts payable did not occur in the current year and review of invoices received after year-end to determine the appropriate period to record accounts payable in did not occur.</p> <p>Recommendation – We recommend the City evaluate and implement enhancements to its controls, to the extent necessary, to ensure that accurate financial statements are produced.</p> <p>Views of Responsible Officials and Planned Corrective Actions – We agree. The City will review its current procedures and consider areas for improvement to prevent and detect future misstatements.</p>

City of Lawton
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2018

Reference Number	Finding
2018-007	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – Financing transactions are only reviewed once a year when the debt rollforward is completed. An adjustment was identified in the testing of debt to correct the principal balance on the City’s Waurika debt. The City is unable to reconcile the confirmation received on Waurika debt to the City’s records.</p> <p>Context – Accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties. Accurate debt balances are critical to covenant compliance.</p> <p>Cause – The controls currently in place are not adequate, are not being performed timely or are not functioning effectively.</p> <p>Effect – Material misstatements in the financial statements resulting from errors that occurred and were not detected and/or corrected in a timely manner created the need to record adjustments in the current year to correct the errors. Timely reconciliation of the long-term debt activity did not occur in the current year.</p> <p>Recommendation – We recommend the City evaluate and implement enhancements to its controls, to the extent necessary, to ensure that accurate financial statements are produced.</p> <p>Views of Responsible Officials and Planned Corrective Actions – We agree. The City will review its current procedures and consider areas for improvement to prevent and detect future misstatements.</p>

City of Lawton
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2018

Reference Number	Finding
2018-008	<p>Criteria or Specific Requirement – Management is responsible for safeguarding information collected by the City.</p> <p>Condition – A data breach occurred in August 2017, which resulted in the delay of performance of several accounting functions, including presentation of financial statements to the City Council.</p> <p>Context – Accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties.</p> <p>Cause – The controls currently in place are not adequate, are not being performed timely or are not functioning effectively.</p> <p>Effect – Timely reconciliation of financial statement activity and adequate review of safeguards against unwanted intruders into the City’s financial statement and other software did not occur or prevent impact on the City’s financial statements.</p> <p>Recommendation – We recommend the City evaluate and implement enhancements to its controls, to the extent necessary, to ensure data is adequately safeguarded and financial statements are presented to the City Council timely for review and decision-making.</p> <p>Views of Responsible Officials and Planned Corrective Actions – We agree. The City will review its current procedures and consider areas for improvement to prevent and detect future misstatements.</p>

City of Lawton
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2018

Section III – Federal Audit Findings and Questioned Costs

Reference Number	Finding
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No matters are reportable.



FINANCIAL SERVICES
212 SW 9th
Lawton, Oklahoma 73501
(580) 581-3332 FAX (580) 581-3438

March 12, 2019

**Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018**

Reference Number	Finding	Status
2017-001 2016-001	<p>The City's annual audited financial statements are prepared in conformity with generally accepted accounting principles (GAAP). The City's budgetary basis accounting system does not support an effective and efficient conversion from the budgetary basis of accounting to the GAAP basis of financial reporting. The City's system also allows one individual to post journal entries without required review and approval and does not require the formal review and approval of changes to the City's vendor master files. Additionally, we noted various errors in capital asset depreciation due to a combination of incorrect data and incorrect depreciation methods used by the system. Adjusting entries were required during the audit process to correct the City's accounting records. The current system also significantly complicates the process of building and supporting year-end GAAP basis financial statements, impacting the timeliness of preparing and issuing the year-end audited GAAP basis financial statements.</p> <p>This prior year finding was repeated by the auditor in the Fiscal Year 2018 Schedule of Findings and Questioned Costs. As noted in the City's response in the current year, conversion to a new accounting system may take significant time due to both budgetary funding or constraint issues as well as the conversion and implementation time that would necessarily be required for the new system after its identification and funding have been determined.</p>	Not Corrected

Reference Number	Finding	Status
2016-002	<p>The City utilizes a budgetary basis of accounting for its daily accounting records and only converts to an accrual basis of accounting on an annual basis for its year-end financial reporting. During the course of the audit, we encountered the need to propose numerous correcting entries to accruals, capital assets, receivable and liabilities balances, and other matters. Several adjusting entries were proposed and required to be recorded to the City's records in order for the financial statements to be issued in compliance with GAAP. Several additional entries were proposed to be recorded but ultimately were determined by management to not be material to the financial statements.</p> <p>This prior year finding was repeated by the auditor in the Fiscal Year 2018 Schedule of Findings and Questioned Costs. As noted in the City's response in the current year, additional procedures have been implemented to require formal procedures and documentation of the review and approval of posting journal entries.</p>	Partially Corrected

Reference Number	Finding	Status
2017-002	<p>The City does not have formal accounting policies and procedures over the City's accounting and internal control processes, and current policies and procedures may not effectively limit duties to minimize risks associated with segregation of duties. Misstatements in the financial statements resulting from errors that occurred and were not detected and/or corrected in a timely manner created the need to record audit adjustments to correct the errors.</p> <p>This prior year finding was repeated by the auditor in the Fiscal Year 2018 Schedule of Findings and Questioned Costs. As noted in the City's response in the current year, additional procedures have been implemented to require formal procedures and documentation of the review and approval of posting journal entries. Additionally, during the latter half of Fiscal Year 2018, an organizational restructuring of the City's Finance Department occurred and additional personnel were added that, in part, should effectively limit the duties of certain staff so as to minimize the risks associated with the segregation of duties.</p>	Partially Corrected

Reference Number	Finding	Status
2017-003	<p>Timely reconciliation of account balances is crucial to the internal control process to detect and correct potential adjustments and to identify potential misappropriation or misuse of assets. Due to limitations in staffing, the City fell behind on reconciliations of accounts receivable, inventory, capital assets and bank reconciliations. The City was unable to complete accounts receivable, inventory, capital assets or bank reconciliation. The bank reconciliations were up to eleven months behind schedule in 2017, which resulted in the City being unable to timely identify and correct material adjustments and could have resulted in the City being unable to timely identify misappropriation or misuse of assets.</p> <p>This prior year finding was repeated by the auditor in the Fiscal Year 2018 Schedule of Findings and Questioned Costs. As noted in the City's response in the current year, the City made concerted efforts to catch up on the reconciliation process during the year and has remained up-to-date on reconciliations in 2019.</p>	Not Corrected

Reference Number	Finding	Status
2017-004	<p>The City does not have review and approval processes implemented to prevent misstatements of the SEFA schedule. An accurate SEFA is critical in the selection of major programs. The City's controls regarding the preparation, review and approval of the SEFA did not operate effectively. The City's SEFA could be reporting inaccurate federal expenditures and inaccurate CFDA numbers. In addition, the schedule may be incomplete due to unknown awards. An inaccurate SEFA could result in major programs not being properly tested each year.</p> <p>This prior year finding was repeated by the auditor in the Fiscal Year 2018 Schedule of Findings and Questioned Costs. As noted in the City's response in the current year, the City is working on implementing and documenting appropriate controls regarding the preparation, review and approval of the SEFA to ensure accurate schedules. When a grant is awarded, departments have been instructed to go through the Finance Director for review.</p>	Not Corrected

Reference Number	Finding	Status
2017-005	<p>The City recorded a prior period adjustment to removed \$1.9 million in assets incorrectly included in both governmental activities construction in progress and in additions to infrastructure in the fiscal year ended June 30, 2016 financial statements. The City also identified in the reconciliation of capital assets for the fiscal year 2017 financial statements, \$0.2 million in business-type and \$2.8 million in governmental activities additions subsequent to interim fieldwork. Finally, BKD noted certain instances where accumulated depreciation is not being calculated correctly. Accurate financial statements are critical to managing operations and communicating financial position and results of operations to interested parties. The controls currently in place are not adequate, are not being performed timely or are not functioning effectively. Material misstatements in the financial statements resulting from errors that occurred and were not detected and/or corrected in a timely manner created the need to record adjustments in the current year to correct the errors. Timely reconciliation of the capital asset activity did not occur in the prior year or current year due to limitations on staffing</p> <p>This prior year finding was repeated by the auditor in the Fiscal Year 2018 Schedule of Findings and Questioned Costs. As noted in the City's response in the current year, the City is working to review its current procedures and consider areas for improvement to prevent and detect future misstatements.</p>	Not Corrected

Reference Number	Finding	Status
2017-006 2016-003	<p>Federal Transit Cluster CFDA No. 20.507 U.S. Department of Transportation: Federal Transit Administration Procurement and Suspension and Debarment</p>	Fully Corrected
	<p>The City's procurement policy, used by the transit department for the purchase of fuel, does not include a provision requiring verification that a proposed vendor has not been suspended or debarred. Alternatively, documentation could not be provided that the City collected a certification from the vendor or added a clause or condition to the vendor contract that it was a covered transaction with that entity as allowed by the 2 CFR 180.995. The City could enter into covered transactions with vendors that have been suspended or debarred.</p>	

Reference Number	Finding	Status
2017-007 2016-004	Federal Transit Cluster CFDA No. 20.507 U.S. Department of Transportation: Federal Transit Administration Equipment and Real Property Management	Fully Corrected
	<p>2 CFR 200.313 requires that a physical inventory of property be taken and the results reconciled with the property records at least once every two years. The City did not complete a physical inventory during fiscal year 2016 and the fiscal year 2017 was not completed until October 2017.</p>	