

CITY OF KINSTON

COMPLIANCE REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 1997**





McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING 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 Kinston, North Carolina

We have audited the general purpose financial statements of City of Kinston, North Carolina, as of and for the year ended June 30, 1997, and have issued our report thereon dated October 14, 1997. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Kinston's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 one instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying schedule of findings and questioned costs as item 97-2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Kinston's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating significant deficiencies in the design or operation of the internal control over the financial reporting that, in our judgment, could adversely affect the City of Kinston's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 97-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would

not necessarily disclose all reportable conditions that are also considered to be material weakness. However we believe the reportable condition described above is not a material weaknesses. We noted other matters involving the internal control over financial reporting that we have reported to management of the City of Kinston in a separate letter dated October 14, 1997.

This report is intended for the information of the members of the city council, management and federal and State awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

New Bern, North Carolina
October 14, 1997



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Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO ITS MAJOR FEDERAL PROGRAM, INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE
SINGLE AUDIT IMPLEMENTATION ACT, AND THE SCHEDULE OF
EXPENDITURES OF FEDERAL AND STATE AWARDS**

To the Honorable Mayor and
Members of the City Council,
City of Kinston, North Carolina

Compliance

We have audited the compliance of City of Kinston, North Carolina, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to its major federal program for the year ended June 30, 1997. City of Kinston's major federal program is 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 its major federal program is the responsibility of City of Kinston'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 generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act 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 of Kinston'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 on City of Kinston's compliance with those requirements.

In our opinion, City of Kinston's complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 1997.

Internal Control Over Compliance

The management of Kinston is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Kinston's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our 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 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal and State Awards

We have audited the general purpose financial statements of City of Kinston as of and for the year ended June 30, 1997, and have issued our report thereon dated October 14, 1997. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and the State Single Audit Implementation Act, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the members of the city council, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

New Bern, North Carolina
October 14, 1997



McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR STATE PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND
THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

To the Honorable Mayor and
Members of the City Council,
City of Kinston, North Carolina

Compliance

We have audited the compliance of City of Kinston, North Carolina with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that are applicable to each of its major State programs for the year ended June 30, 1997. City of Kinston's major State 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 State programs is the responsibility of City of Kinston'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 generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations; and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act 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 State program occurred. An audit includes examining, on a test basis, evidence about City of Kinston'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 on City of Kinston's compliance with those requirements.

In our opinion, the City of Kinston complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 1997.

Internal Control Over Compliance

The management of City of Kinston is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered City of Kinston's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our 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 and the State Single Audit Implementation Act.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major State program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the members of the city council, management and State awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

New Bern, North Carolina
October 14, 1997

**CITY OF KINSTON, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 1997**

I. Summary of Auditor's Results

- A. An unqualified opinion was issued on the financial statements of City of Kinston, North Carolina.
- B. Our audit of the general purpose financial statements disclosed one reportable condition in internal controls. This reportable condition was not determined to be a material weaknesses in internal controls over financial reporting.
- C. Our audit of the general purpose financial statements disclosed no instances of noncompliance with laws, regulations and the provisions of contracts and grant agreements that is material to the general purpose financial statements.
- D. Our audit of compliance with the types of compliance requirements applicable to the City's major programs disclosed no material weaknesses in internal controls over compliance.
- E. An unqualified opinion was issued on City of Kinston's compliance with the types of compliance requirements applicable to its major federal program.
- F. An unqualified opinion was issued on City of Kinston's compliance with the types of compliance requirements applicable to its major State programs.
- G. Our audit disclosed no audit findings which relate to federal and State awards which are required to be reported.
- H. The major federal program for City of Kinston for the fiscal year ended June 30, 1997 is:

<u>Program Name</u>	<u>CFDA#</u>
Federal Emergency Management Disaster Assistance	83.516

- I. Major State programs for City of Kinston for the fiscal year ended June 30, 1997 are:

<u>Program Name</u>	<u>Grant Number</u>
N. C. Clean Water Revolving Loan and Grant Fund	E-SRG-37-0209
Non-State System Street-Aid Allocation (Powell Bill)	N/A

- J. The threshold for determining Type A programs for City of Kinston is \$300,000.
- L. City of Kinston qualified as a low risk auditee under Section .530 of Circular No. A-133.

II. Findings Related to the Audit of the General Purpose Financial Statements of City of Kinston

Finding: 97 - 1

- A. Internal Controls
Condition:

Due to the limited number of employees in the City's electronic data processing department, there is a lack of segregation of duties. Specifically, persons with programming capabilities have access to the system's data files (database), which contain all of the City's transactions.

Recommendation: When a lack of segregation of employee duties is present, management must implement supervisory and review controls to mitigate the control problem.

Finding: 97 - 2 (Not considered material to general purpose financial statements)

B. Compliance

Criteria: G.S. 159-28 does not permit local governments to commit or expend funds in excess of the adopted budget (including amendments).

Condition: The City overexpended its budget authority at the legal level of control as follows:

Water and Sewer Capital Projects Fund:

Castle Oaks/Falling Creek Water Lines	\$	24,841
Poole Project - U.S. 70 West		118,112
National Guard Project		50,982

Effect: Moneys were spent that had not been appropriated.

Cause: Expenditures were paid that exceeded the appropriated amounts.

Recommendation: The City should adhere to GS 159-28 and amend its budget and project ordinances to prevent the over commitment or expenditure of funds.

III. Findings and Questioned Costs Related to the Audit of Federal and State Awards

There were no findings noted which are required to be reported.

**CITY OF KINSTON, NORTH CAROLINA
CORRECTIVE ACTION PLAN
For the Year Ended June 30, 1997**

Finding: 97-1

- A. Name of contact person: Mike Thomas
- B. Corrective Action: Supervisory and review controls will be implemented in an effort to mitigate this condition.
- C. Proposed Completion Date: January, 1998

Finding: 97-2

- A. Name of contact person: Dick Somerday
- B. Corrective Action: The City will amend the project budgets that were overspent and adhere to GS 159-28 in the future.
- C. Proposed Completion Date: December, 1997

**CITY OF KINSTON, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 1997**

- Finding:** 96-1 (GAS reportable condition)
Status: Duties are being separated as much as possible and alternative controls are being implemented to compensate for lack of separation. See finding 97-1 for current status.
- Finding:** 96-2 (GAS reportable condition)
Status: Corrected
- Finding:** 96-3 (GAS noncompliance with State statute)
Status: Corrected
- Finding:** 96-4 (A-128 noncompliance - State Powell Bill)
Status: Corrected

Other matter findings in the prior year were not deemed reportable conditions which are audit findings under OMB Circular A-133.

City of Kinston, North Carolina
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 1997

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Federal Direct & Pass-Through Expenditures	State Expenditures	Local Expenditures
FEDERAL GRANTS					
US Department of Housing & Urban Development Direct Program:					
Community Development Special Purpose Grant	14.228	N/A	\$ 17,996	\$ --	\$ --
Federal Emergency Management Disaster Assistance Pass-through: NC Department of Crime Control and Public Safety (M)					
	83.516	PA 133-34200	1,685,360	271,344	393,344
US Department of Justice Direct Program:					
Public Safety and Community Policing Grant - School Resources	16.710	94-DNCX-0056	180,445	--	--
Community Oriented Policing Services - COPS FAST	16.710	96-LBUX-2854	92,736	--	--
Total US Department of Justice			<u>273,181</u>	<u>--</u>	<u>--</u>
STATE GRANTS (All direct)					
NC Department of Transportation Nonstate System Street Aid Allocation (M)					
	N/A	N/A	--	758,501	--
NC Department of Environment, Health and Natural Resources Mosquito Control Program					
	N/A	N/A	--	5,100	5,100
NC Housing Finance Agency Single Family Rehabilitation Project					
	N/A	950521	--	125,291	39,613
NC Department of Cultural Resources Local Historians Organizations Grant					
	N/A	N/A	--	20,255	--
NC Department of Crime Control and Public Safety Victims Advocate Program					
	N/A	54-295-V3-VF021	--	9,061	--
Domestic Violence Program					
	N/A	54-195-V3-V016	--	11,554	--
Total NC Department of Crime Control and Public Safety			<u>--</u>	<u>20,615</u>	<u>--</u>
NC Department of Environmental, Health and Natural Resources Water Pollution Control Revolving Fund (M)					
	N/A	CS270527-03	--	1,343,603	--
Sand Clay Road Park LWCF Grant					
	N/A	37-0964	--	15,205	--
			<u>--</u>	<u>1,358,808</u>	<u>--</u>
NC Department of Commerce Hicks Street					
	N/A	95-C-0131			126,928
Lewis School HD-1					
	N/A	94-C-8426		7,784	3,432
Lewis School Revitalization					
	N/A	93-C-8276	--	150,737	25,510
			<u>--</u>	<u>158,521</u>	<u>155,870</u>
Total Federal Expenditures			<u>\$ 1,976,537</u>		
Total State Expenditures				<u>\$ 2,718,435</u>	
Total Local Expenditures					<u>\$ 593,927</u>
Outstanding Loan Balances at June 30, 1997					
Water Pollution Control Revolving Fund				<u>\$ 3,715,460</u>	

Note 1: Revenues and expenditures are reported on the modified accrual basis of accounting.

Note 2: (M) denotes major program.

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