

CITY OF KINSTON, NORTH CAROLINA

COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 1992



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INDEPENDENT AUDITOR'S COMPLIANCE REPORT BASED ON AN AUDIT OF GENERAL PURPOSE 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, 1992, and have issued our report thereon dated October 2, 1992.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with laws, regulations, contracts and grants applicable to City of Kinston, North Carolina, is the responsibility of City of Kinston, North Carolina's management. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the general purpose financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the general purpose financial statements.

The results of our tests indicate that, with respect to the items tested, City of Kinston, North Carolina complied, in all material respects, with provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the City had not complied, in all material respects, with those provisions.

During our tests of compliance and in conjunction with an operation review of the City's purchasing policies and operations requested by City management, we noted the following immaterial instances of noncompliance in the purchasing cycle: Of 98 items selected, 25 (25.5%) did not appear to be in compliance with North Carolina General Statutes §143-131 and §159-28.

This report is intended for the information of management, the cognizant audit agency, other federal and State agencies and the Mayor and City Council. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

McKadrey & Pullin

Greenville, North Carolina
October 2, 1992



McGLADREY & PULLEN

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INDEPENDENT AUDITOR'S SINGLE AUDIT COMBINED REPORT ON INTERNAL CONTROL STRUCTURE

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, 1992, and have issued our report thereon dated October 2, 1992. We have also audited City of Kinston, North Carolina's compliance with requirements applicable to major federal and State financial assistance programs and have issued our report thereon dated October 2, 1992.

We conducted our audits in accordance with generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments; and the State Single Audit Implementation Act. Those standards, OMB Circular A-128, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement and about whether City of Kinston, North Carolina, complied with laws and regulations, noncompliance with which would be material to a major federal or State financial assistance program.

In planning and performing our audits for the year ended June 30, 1992, we considered the City's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the City's general purpose financial statements and on its compliance with requirements applicable to major federal and State financial assistance programs and not to provide assurance on the internal control structure.

The management of City of Kinston, North Carolina, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of general purpose financial statements in accordance with generally accepted accounting principles, and that federal and State financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Accounting controls:

- Revenue/receipts cycle
- Expenditure cycle, purchases/disbursements
- Expenditure cycle, payroll segment
- Financial reporting cycle
- Investing cycle

Administrative controls:

General requirements:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property management
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace
- Administration requirements

Specific program requirements:

- Types of services allowed or unallowed
- Reporting
- Cost allocation
- Special requirements, if any

Claims for advances and reimbursements

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

During the year ended June 30, 1992, City of Kinston, North Carolina had one major federal financial assistance program and expended 64.2% of its total federal financial assistance under this major program.

We performed tests of controls, as required by OMB Circular A-128 and the State Single Audit Implementation Act, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements that are applicable to each of the City's major federal and State financial assistance programs, which are identified in the accompanying schedule of federal and State financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

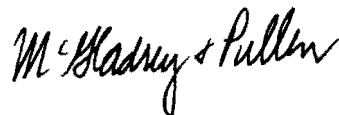
We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose financial statements or to administer federal and State financial assistance programs in accordance with applicable laws and regulations. These reportable conditions are described in the accompanying schedule of internal control structure reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited or that noncompliance with laws and regulations that would be material to a federal or State financial assistance program 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 structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above. These material weaknesses are described in the accompanying schedule of internal control structure reportable conditions and other matters. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audits of City of Kinston, North Carolina's general purpose financial statements and of its compliance with requirements applicable to its major federal and State financial assistance programs for the year ended June 30, 1992, and this report does not affect our reports thereon dated October 2, 1992.

We also noted certain matters described in the accompanying schedule of internal control structure reportable conditions and other matters involving the internal control structure and its operation which we do not consider to meet the definition of a reportable condition.

This report is intended for the information of the governing board, management, the cognizant audit agency, other federal and State agencies and the Mayor and City Council. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



Greenville, North Carolina
October 2, 1992

CITY OF KINSTON

SCHEDULE OF INTERNAL CONTROL STRUCTURE REPORTABLE CONDITIONS AND OTHER MATTERS

Reportable Conditions:

Material Weaknesses

Condition: During our testing of the internal control structure, and in conjunction with an operation review of the City's purchasing policies and operations requested by City management, it was noted that 47% of the transactions tested deviated from the City's Purchasing Policy and Procedure Manual and 25.5% of the transactions tested did not appear to be in compliance with North Carolina General Statutes.

Recommendation: The City should enforce adherence to procedures required by North Carolina General Statutes.

Response: The City has taken a very aggressive approach in monitoring the purchasing cycle. The City's Purchasing Policy and Procedure Manual is being reviewed to ensure that it is consistent with North Carolina General Statutes.

Immaterial Weaknesses

1. Condition: Employees in the Finance Department have access to the personnel master files on the City's computer system.

Recommendation: Access to certain data (e.g. rate of pay) in the personnel master file should be restricted to the Personnel Department.

2. Condition: During our inquiry of the EDP personnel, it was noted that there was a lack of segregation of duties. Specifically, persons with programming capabilities have access to the system's data files (database), which contains all of the City's transactions. Ideally, programmers should not be permitted access to "live" master or transaction data and should be allowed access to only those programs that they have been authorized to modify.

Recommendation: Additional controls should be implemented to identify persons accessing the EDP system.

3. Condition: The City has taken significant steps toward improving physical controls over inventory. A thorough physical inventory was taken during the fiscal year ended June 30, 1992, and inventory balances were reconciled with actual quantities on hand. However, the City needs to continue to monitor inventory transactions on a regular basis and to improve the physical controls over inventory. At present, the City does not use receiving reports. Copies of purchase orders with order quantities are sent to the warehouse and used to verify receipt of inventory.

Recommendation: The City should consider the use of a "blind" receiving report. In the absence of a receiving report, the City should consider blocking out the quantity ordered on the warehouse copy of the purchase order. This recommendation would require persons receiving inventory to make an independent count of quantities received.

Other Matters:

1. Situation: The City's current data processing system is rapidly approaching obsolescence. This is evidenced by the increased time required for the system to process routine functions as well as the increased number of temporary system failures from system overload or physical breakdown.

Recommendation: We recommend the City develop a master plan that outlines the criteria to be used in developing a comprehensive request for proposal for new hardware and software, and a realistic time frame for completing each phase. This master plan would assist the City's management in the planning and budgetary processes by providing information necessary for long range capital needs. With a master plan in place, the City could eliminate a major portion of the "down time" in the event of a non-recoverable system failure. The master plan would serve as a portion of a "temporary" disaster recovery plan in that the City would have identified the critical applications and have an idea of the time required to implement them.

2. Situation: The City has a significant investment in its management information system and is dependent upon the system for daily operations such as utility billing, paying City's payroll and vendors, processing purchase orders, tracking inventory, and providing information for management and budgetary decisions. Due to this dependence on the computer system, the City is exposed to a significant operating and financial risk should the system be "down" for a significant period of time. This risk is significantly increased because the City has no comprehensive disaster recovery plan that would help minimize the effects of such a disaster or system failure.

Recommendation: We recommend that the City place high priority on the development of a comprehensive disaster recovery plan, including thorough testing of an alternate processing facility.

3. Situation: The current organizational chart of the City requires the Data Processing Department to report to the Director of Finance and Administration.

Recommendation: The City should consider forming a Management Information Systems Department with the director reporting directly to the City Manager. The City's reliance on the data processing function should be independent of influence from any particular department. The Management Information Systems Department should be tasked with coordinating and providing the management information needs of the entire City.



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Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH THE GENERAL REQUIREMENTS APPLICABLE TO FEDERAL FINANCIAL ASSISTANCE PROGRAMS

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, 1992, and have issued our report thereon dated October 2, 1992.

We have applied procedures to test City of Kinston, North Carolina's, compliance with the following requirements applicable to its federal assistance programs, which are identified in the schedule of federal and State financial assistance, for the year ended June 30, 1992:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property management
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace
- Administration requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on City of Kinston, North Carolina's, compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that City of Kinston, North Carolina, had not complied, in all material respects, with those requirements.

This report is intended for the information of management, the cognizant audit agency, and other federal and State agencies and the Mayor and City Council. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

McGladrey & Pullen

Greenville, North Carolina
October 2, 1992



McGLADREY & PULLEN

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR FEDERAL AND STATE FINANCIAL ASSISTANCE PROGRAMS

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

We have audited the general purposed financial statements of City of Kinston, North Carolina, as of and for the year ended June 30, 1992, and have issued our report thereon dated October 2, 1992.

We have also audited City of Kinston, North Carolina's compliance with the requirements governing types of services allowed or unallowed; reporting; cost allocation; special tests and provisions as listed in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission; and claims for advances and reimbursements that are applicable to its major federal and State financial assistance program, which are identified in the accompanying schedule of federal and State financial assistance, for the year ended June 30, 1992. The management of City of Kinston, North Carolina, is responsible for the City's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, Office of Management and Budget Circular A-128, Audits of State and Local Governments, and the State Single Audit Implementation Act. Those standards, OMB Circular A-128 and the State Single Audit Implementation Act, require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about City of Kinston, North Carolina's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, City of Kinston, North Carolina complied, in all material respects, with the requirements governing types of services allowed or unallowed; reporting; cost allocation; special tests and provisions as listed in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission; and claims for advances and reimbursements that are applicable to its major federal and State financial assistance programs for the year ended June 30, 1992.

This report is intended for the information of management, the cognizant audit agency, other federal and State agencies and the Mayor and City Council. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

McHargray & Pullen

Greenville, North Carolina
October 2, 1992



McGLADREY & PULLEN

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE

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

We have submitted, under separate cover, the general purpose financial statements of City of Kinston, North Carolina as of and for the year ended June 30, 1992, and our report thereon, dated October 2, 1992, is as presented in the following three paragraphs.

We have audited the accompanying general purpose financial statements of City of Kinston, North Carolina as of and for the year ended June 30, 1992, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of City of Kinston, North Carolina as of June 30, 1992, and the results of its operations and the cash flows of its proprietary fund type for the year then ended, in conformity with generally accepted accounting principles.

In addition to having performed our audit in accordance with generally accepted auditing standards, we also performed our audit in accordance with the standards for financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of City of Kinston, North Carolina taken as a whole. The accompanying schedule of federal and State financial assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole and should be read in conjunction with those statements and related notes.

McGarry & Pullin

Greenville, North Carolina
October 2, 1992

CITY OF KINSTON, NORTH CAROLINA

SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE
For the Year Ended June 30, 1992

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-through Grantor's Number	Program or Award Amount	Revenues		Expenditures	
				Grantor Recognized	Grantee Contributions	Grantor Funding	Grantee Funding
U.S. Department of Housing and Urban Development							
Passed through State Department of Economic and Community Development							
Community Development Block Grant Program:							
Small Cities Program:							
New York/Reed Street Project	14.219		\$ 666,000	\$ 329,672	\$ -	\$ 329,672	\$ -
Passed through North Carolina Housing Finance Agency							
Rental Rehabilitation Grant	14.230	RS855G370108	45,500	45,500	-	45,500	-
Energy Conservation & Housing Rehabilitation Grant		920602	67,500	16,875	-	16,875	-
Total U.S. Department Housing and Urban Development			<u>779,000</u>	<u>392,047</u>	<u>-</u>	<u>392,047</u>	<u>-</u>
U.S. Department of Transportation							
Passed through State Department of Transportation							
UMTA Elderly/Handicapped Transportation Program	20.507		124,535	38,714	67,453	9,724	59,188
Passed through State Department of Transportation							
Governor's Highway Safety Program -							
State and Community Highway Safety							
DWI Task Force	22.600	AL-92-02-03	147,368	122,111	14,346	111,422	14,346
Total U.S. Department of Transportation			<u>271,903</u>	<u>160,825</u>	<u>81,799</u>	<u>121,146</u>	<u>73,534</u>
Total Federal Assistance			<u>1,050,903</u>	<u>552,872</u>	<u>81,799</u>	<u>513,193</u>	<u>73,534</u>
N.C. Department of Human Resources, Division of Health Services							
State aid for mosquito control			10,851	10,851	-	10,851	-
N.C. Department of Transportation							
Powell Bill Fund			648,594	620,655	39,491	620,655	-
N.C. Department of Economic and Community Development							
Main Street Financial Incentive Fund - Paramount Theater			20,000	20,000	-	20,000	-
N.C. Department of Crime Control and Public Safety							
Domestic Violence Program			34,048	27,255	-	27,255	-
			<u>\$ 1,764,396</u>	<u>\$ 1,231,633</u>	<u>\$ 121,290</u>	<u>\$ 1,191,954</u>	<u>\$ 73,534</u>

