

**CITY OF KINSTON
NORTH CAROLINA**

COMPLIANCE LETTERS

FOR THE YEAR ENDED JUNE 30, 2016

CITY OF KINSTON, NORTH CAROLINA

COMPLIANCE LETTERS FOR THE YEAR ENDED JUNE 30, 2016

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MARTIN ♦ STARNES

& ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

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

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

We have audited, in accordance with the 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, each major fund, and the aggregate remaining fund information of the City of Kinston, North Carolina, as of and for the year ended June 30, 2016, not presented here, 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 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kinston'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 of Kinston's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kinston's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings, Responses, and Questioned Costs as items 2016-001 and 2016-002 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kinston's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 an instance of non-compliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings, Responses, and Questioned Costs as item 2016-002.

City of Kinston's Responses to Findings

The City of Kinston's responses to the findings identified in our audit are described in the accompanying Corrective Action Plan. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result of that testing, and not to provide and 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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
February 17, 2017

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Report On Compliance For Each Major State Program; Report on Internal Control Over Compliance; Report On The Schedule Of Expenditures Of Federal And State Awards Required By OMB Uniform Guidance; And The State Single Audit Implementation Act

Independent Auditor’s Report

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

Report On Compliance for Each Major State Program

We have audited the City of Kinston, North Carolina’s compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of the City of Kinston’s major State programs for the year ended June 30, 2016. The City of Kinston’s major State programs are identified in the summary of auditor’s results section of the accompanying Schedule of Findings, Responses, and Questioned Costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its State programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Kinston’s major State programs 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; applicable sections of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina* and the State Single Audit Implementation Act. Those standards, Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance 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 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 on compliance for each major State program. However, our audit does not provide a legal determination of the City of Kinston’s compliance.

Opinion On Each Major State Program

In our opinion, the City of Kinston complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2016.

Report On Internal Control Over Compliance

Management of the City of Kinston 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 of Kinston's internal control over compliance with the requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major State 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 of Kinston'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, non-compliance with a type of compliance requirement of a State 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 reasonable possibility that material non-compliance with a type of compliance requirement of a State 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 State 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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal and State Awards Required by the Uniform Guidance and the State Single Audit Implementation Act

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Kinston, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Kinston's basic financial statements, and have issued our report thereon dated February 17, 2017, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Kinston's basic financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by the Uniform Guidance, and the State Single Audit Implementation Act, 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 financial statements and certain other 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 Expenditures of Federal and State Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
February 17, 2017

CITY OF KINSTON, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

1. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes
- Significant deficiency(ies) identified? None reported

Non-compliance material to financial statements noted? Yes

State Awards

Internal control over major State programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Type of auditor's report issued on compliance for major State programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act? No

Identification of major State programs:

Program Name

Powell Bill

CITY OF KINSTON, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

2. Financial Statement Findings

Material Weakness

Finding 2016-001 Lack of Segregation of Duties

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: Due to the limited number of personnel in the City's Finance Office, there are inherent limitations to segregation of duties among the City personnel.

Context: Presently, a single individual maintains the general ledger and has full access to make adjustments in the general ledger system.

Effect: Adjustments could be made without oversight.

Cause: There are a limited number of personnel for certain functions.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2015-001.

Recommendation: Access to the books and records of the City should be separated from access to the assets of the City as much as possible. Non-financial staff should review an adjustment report on a monthly basis to detect unauthorized adjustments to general ledger.

Views of Responsible Officials and Planned Corrective Actions: Management agrees and is aware of the weakness but, due to cost benefit analysis, hiring personnel does not appear to be feasible at this time. Management has made compensating changes through duty reassignments, review and software controls.

CITY OF KINSTON, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2016

2. Financial Statement Findings

Material Weakness

Finding 2016-002

Criteria: Per G.S. 159-13, the full amount of any deficit in each fund shall be appropriated in the budgeting process.

Condition: Several funds continued to operate in a deficit. A detailed note of the deficit fund balance, or net positions, is found in the notes to the financial statements of the City's audit report.

Cause: The City adopted balanced budgets; but did not appropriate fund balance sufficient to correct deficits.

Effect: The City has several funds operating with deficit fund balances or net position.

Context: During our review of the drafted financial statements, we noted the condition described above.

Recommendation: The City should budget to correct any deficits annually.

Views of Responsible Officials and Planned Corrective Actions: Management will monitor costs related to these funds and will take measures to ensure these funds do not operate in a deficit in the future. Future transfers will be used to offset any deficits.

3. State Award Findings and Questioned Costs

None reported

CITY OF KINSTON, NORTH CAROLINA

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2016**

2. Financial Statement Findings

Material Weakness

Finding: 2016-001

Name of Contact Person: Catherine Gwynn, Finance Director

Corrective Action/Management's Response: Management concurs with the finding and will continue to implement additional segregation of duties.

Proposed Completion Date: Management will implement the above procedure immediately.

Material Weakness

Finding: 2016-002

Name of Contact Person: Catherine Gwynn, Finance Director

Corrective Action/Management's Response: The Finance Director will monitor funds to identify areas where transfers may be required to ensure funds are not operating in a deficit.

Proposed Completion Date: Management will implement the above procedure immediately.

CITY OF KINSTON, NORTH CAROLINA
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

Finding 2015-001- Repeated as 2016-001

CITY OF KINSTON, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Pass-Through Grantor's Number	Federal Direct and Pass-Through Expenditures	State Expenditures
Federal Grants:				
Cash Programs:				
US Department of Justice				
Bureau of Justice Assistance				
Direct Program:				
Edward Byrne Memorial Justice Assistance Grant Program - 2010	16.738		\$ 767	\$ -
Edward Byrne Memorial Justice Assistance Grant Program - 2012	16.738		909	-
Edward Byrne Memorial Justice Assistance Grant Program - 2013	16.738		17,091	-
Passed-through the NC Department of Public Safety				
Edward Byrne Memorial Justice Assistance Grant Program - 2015	16.738	PROJ 010834	32,335	-
			<u>51,102</u>	<u>-</u>
Bulletproof Vest Partnership Program	16.607		<u>7,571</u>	<u>-</u>
Criminal Division:				
Equitable Sharing Program	16.922		<u>81,168</u>	<u>-</u>
Total US Department of Justice			<u>139,841</u>	<u>-</u>
Environmental Protection Agency				
Brownfields Assessment and Cleanup Cooperative Agreements- Martin Luther King, Jr. Boulevard Corridor	66.818		<u>169,777</u>	<u>-</u>
Total U.S. Environmental Protection Agency			<u>169,777</u>	<u>-</u>
Total Assistance - Federal Programs			<u>309,618</u>	<u>-</u>
State Grants:				
Cash Assistance:				
NC Department of Transportation				
Non-State System Street Aid Allocation (Powell Bill)		DOT-4	-	621,367
Queen Street Utility Relocation Project			-	168,105
College Street Railroad Crossing Project		32268	-	88,000
Total NC Department of Transportation			<u>-</u>	<u>877,472</u>
NC Department of Public Safety				
Passed through to:				
Governor's Crime Commission				
2009 PSN GCC Project 61			-	28,100
Body Worn Camera Grant			-	98
Total Department of Public Safety			<u>-</u>	<u>28,198</u>
Rural Economic Development Center				
Smithfield Foods, Inc. / Lift Station and Forcemain Installation Project			<u>-</u>	<u>207,815</u>
Total Assistance - State Programs			<u>-</u>	<u>1,113,485</u>
Total assistance			<u>\$ 309,618</u>	<u>\$ 1,113,485</u>

Notes to the Schedule of Expenditures of Federal and State Awards:

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and State grant activity of the City of Kinston under the programs of the federal government and the State of North Carolina for the year ended June 30, 2016. The information in this SEFSA 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 and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the City of Kinston, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of Kinston.

2. Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The City of Kinston has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.