

CITY OF KINSTON

COMPLIANCE REPORTS

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2001**



McGLADREY & PULLEN, LLP

Certified Public Accountants

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**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, 2001, and have issued our report thereon dated September 19, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

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 no instances of noncompliance that is required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of City of Kinston in a separate letter dated September 19, 2001

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 involved matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect City of Kinston's ability to record, process, summarize and report financial data consistent with the assertions or management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 01-1.

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 weaknesses. However, we do not believe that the reportable condition referred to above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of City of Kinston in a separate letter dated September 19, 2001.

This report is intended for solely for the information and use of the members of the City Council, management, federal and State awarding agencies, pass-through entities and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

New Bern, North Carolina
September 19, 2001



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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR FEDERAL 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 federal programs for the year ended June 30, 2001. City of Kinston's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Kinston's management. Our responsibility is to express an opinion on City of Kinston's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; 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 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 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

The management of City of Kinston is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered 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, North Carolina as of and for the year ended June 30, 2001, and have issued our report thereon dated September 19, 2001. 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 the 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 solely for the information and use of the members of the City Council, management, federal awarding agencies, pass-through entities and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

New Bern, North Carolina
September 19, 2001



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR STATE PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH APPLICABLE SECTIONS OF 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 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, 2001. 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 City of Kinston's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; applicable sections of OMB Circular A-133 as described in the Audit Manual for Governmental Auditors in North Carolina, and the State Single Audit Implementation Act. Those standards, applicable sections of 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, 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, 2001. .

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 the 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 applicable sections of 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 solely for the information and use of the members of the City Council, management, State awarding agencies, pass-through entities and the North Carolina Department of the State Treasurer and is not intended to be and should not be used by anyone other than those specified parties.

McGladrey & Pullen, LLP

New Bern, North Carolina
September 19, 2001

CITY OF KINSTON
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2001

Section 1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified
that are not considered to be
material weaknesses X yes _____ none reported

Noncompliance material to financial
statements noted

_____ yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified
that are not considered to be
material weaknesses _____ yes X none reported

Type of auditor's report issued on compliance for major federal programs: Unqualified

Any audit findings disclosed that are required to be
reported in accordance with Section 510(a) of
Circular A-133

_____ yes X no

CITY OF KINSTON
Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2001

Identification of major federal programs:

<u>CFDA #</u>	<u>Program Name</u>
83.544	Federal Emergency Management Agency Response and Recovery Directorate
83.548	Federal Emergency Management Agency Hazard Mitigation Grant Program

Federal programs that did not meet the criteria for a major program using the criteria discussed in OMB Circular No. A-133 Section .520 but were tested as a major program because State awards met the threshold for a major State program are included in the list of major federal programs (FEMA - Hazard Mitigation Grant Program).

Dollar threshold used to distinguish
between Type A and Type B Programs \$ 300,000

Auditee qualified as low-risk auditee? X yes no

State Awards

Internal control over major State programs:

- Material weakness(es) identified? yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses yes X none reported

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

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act yes X no

Identification of major State programs:

<u>NC Object #</u>	<u>Program Name</u>
N/A	Nonstate System Street-Aid Allocation (Powell Bill)
N/A	State Acquisition and Relocation Fund
N/A	Clean Water Management Trust Fund
N/A	Clean Water Bond Grant Program
N/A	Crisis Housing Assistance Funds

CITY OF KINSTON
Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 2001

Section 2. Financial Statement Findings

Finding: 01 - 1 Segregation of Duties - MIS

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.

Section 3. Federal Award Findings and Questioned Costs

None

Section 4. State Award Findings and Questioned Costs

None

**CITY OF KINSTON, NORTH CAROLINA
CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2000**

Section 2. Financial Statement Findings

Finding 01-1 Segregation of Duties - MIS

Contact Name: Richard R. Somerday

Corrective Action: Due to the limited number of staff available, a complete segregation of duties is not practical. However certain procedures have been implemented to increase segregation including increased mangement awareness of the issue and authorization of the additional hiring of an employee.

Effective Date:: September 19, 2001

Section 3. Federal Award Findings and Questioned Costs

No corrective action plan is required in the current year.

Section 4. State Award Findings and Questioned Costs

No corrective action plan is required in the current year

**CITY OF KINSTON, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended June 30, 2001**

Prior year finding 00-1:

See Finding 01 - 1 under the current year schedule of findings and questioned costs.

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CITY OF KINSTON, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Fiscal Year Ended June 30, 2001

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Pass-through Grantor's Number	Expenditures		
			Federal Direct & Pass-Through	State	Local
FEDERAL GRANTS:					
US Department of Housing & Urban Development					
Direct Program:					
Community Development Block Grant - Admin	14.228	N/A	\$ 68,767	\$ -	\$ 24,071
Pass through: Lenior County					
Disaster Recovery Initiative	14.228	B-98NLL37001	1,151,606	-	-
Pass through: NC Department of Commerce					
Kinston - Disaster Recovery Initiative	14.228	98-f-0491	-	-	1,595
Total US Department of Housing & Urban Development			1,220,373	-	25,666
US Department of Justice					
Direct Programs:					
Local Law Enforcement Block Grant - 2000	16.592	00-LBVX-2316	-	-	-
Local Law Enforcement Block Grant - 1999	16.592	99-LBVX-2316	8,899	-	-
COPSMORE Grant	16.710		-	-	6,558
Pass through: Kinston Housing Authority					
Community Oriented Policing Services	16.710	-	153,859	-	-
Total US Department of Justice			162,758	-	6,558
US Department of Transportation					
Pass through: NC Department of Transportation					
Governor's Highway Safety Program	20.600		46,286	-	49,688
Federal Emergency Management Agency					
Pass through: NC Department of Crime Control and Public Safety					
Response and Recovery Directorate	83.544		1,389,030	463,010	(410,168)
Hazard Mitigation Grant Program	83.548		5,627,164	1,875,721	(483,838)
Total Federal Emergency Management Agency			7,016,194	2,338,731	(894,006)
STATE GRANTS (all direct):					
NC Department of Transportation					
Nonstate System Street Aid Allocation (Powell Bill)		N/A	-	1,280,373	-
Highway Safety Equipment Grant			-	30,000	(5,081)
Total NC Department of Transportation			-	1,310,373	(5,081)

CITY OF KINSTON, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Fiscal Year Ended June 30, 2001

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Pass-through Grantor's Number	Expenditures		
			Federal Direct & Pass-Through	State	Local
NC Department of Environment and Natural Resources					
Rural Development Center Grant			\$ -	\$ 206,667	\$ -
Clean Water Management Trust Fund			-	927,098	-
Salvage Yards Grant			-	86,558	-
Division of Water Quality			-		-
Clean Water Bond Fund		54-197-2VAW034	-	1,956,263	-
Total NC Department of Environment and Natural Resources			-	3,176,586	-
NC Department of Commerce					
Division of Community Assistance					
Grainger Place Apartments			-	83,261	20,400
Crisis Housing Assistance Funds			-	1,293,896	-
State Acquisition and Relocation		98-R-0005	-	360,504	(127,622)
Total NC Department of Commerce			-	1,737,661	(107,222)
Total federal expenditures			\$ 8,445,611		
Total State expenditures				\$ 8,563,351	
Total local expenditures					\$ (924,397)

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of City of Kinston, North Carolina and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Note 2. Local Expenditures

Negative local expenditures result when prior year local expenditures are reimbursed by federal and/or State expenditures in the current year.