

CITY OF KINSTON

COMPLIANCE REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 1999**





**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, 1999, and have issued our report thereon dated October 6, 1999. 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 no instances of noncompliance that is required to be reported under Government Auditing Standards.

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 99-1.

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 October 6, 1999.

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
October 6, 1999



**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 its major federal program for the year ended June 30, 1999. 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 City of Kinston'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 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 its major federal program for the year ended June 30, 1999.

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 as of and for the year ended June 30, 1999, and have issued our report thereon dated October 6, 1999. 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
October 6, 1999

**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 its major State program for the year ended June 30, 1999. City of Kinston's major State 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 State program 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 generally accepted auditing standards; 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 its major State program for the year ended June 30, 1999.

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
October 6, 1999

CITY OF KINSTON
Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 1999

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, 1999

Identification of major federal program:

<u>CFDA #</u>	<u>Program Name</u>
83.548	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
- Noncompliance material to State awards yes X no

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)

CITY OF KINSTON
Schedule of Findings and Questioned Costs

For the Fiscal Year Ended June 30, 1999

Section 2. Financial Statement Findings

Finding: 99 - 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.

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, 1999**

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, 1999

There are no prior year audit findings (as that term is defined in OMB Circular A-133) that require reporting in this schedule.

CITY OF KINSTON, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Fiscal Year Ended June 30, 1999

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:					
Disaster Recovery Initiative	14.218	B-98NLL37001	\$ 1,521,655	\$ -	\$ 68,746
Pass through NC Department of Commerce					
Hicks Street	14.228	95-C-0131	432,363	-	127,733
Urgent Needs	14.228	96-C-0288	342,795	-	(116,455)
Kinston - DRI	14.219	98-F-0491	79,937	-	-
Total US Department of Housing & Urban Development			2,376,750	-	80,024
US Department of Justice					
Direct Program:					
Community Oriented Policing Services	16.710	95-CFWX-5124	-	-	2,948
Local Law Enforcement Block Grant	16.592	98-LBUX-2316	65,012	-	(15,582)
Total US Department of Justice			65,012	-	(12,634)
Federal Emergency Management Agency					
Pass through NC Department of Crime Control and Public Safety					
Disaster Assistance	83.544	PA-133-342000	75,368	25,123	(86,588)
Hazard Mitigation Grant Program	83.548	HMGP-1134-004	3,308,245	1,102,748	(69,916)
Total Federal Emergency Management Agency			3,383,613	1,127,871	(156,504)
STATE GRANTS (all direct):					
NC Department of Transportation					
Nonstate System Street Aid Allocation		N/A	-	668,619	-
NC Department of Environment and Natural Resources					
Mosquito Control Program		N/A	-	6,168	6,168
NC Department of Cultural Resources					
Local Historians Organizations Grant		N/A	-	-	9,543
Tree Inventory Grant		N/A	-	10,000	(10,000)
Total NC Department of Cultural Resources			-	10,000	(457)
NC Department of Crime Control and Public Safety					
Domestic Violence Program			-	56,155	-
Domestic Violence Intervention Team		54-197-2VAW034	-	98,662	97,859
Total Department of Crime Control and Public Safety			-	154,817	97,859

CITY OF KINSTON, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

For the Fiscal Year Ended June 30, 1999

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 Commerce State Acquisition and Relocation - DCA		98-R-0005	-	1,235	-
Total federal expenditures			<u>\$ 5,825,375</u>		
Total State expenditures				<u>\$ 1,968,710</u>	
Total local expenditures					<u>\$ 14,456</u>
Outstanding loan balances at June 30, 1999 Water Pollution Control Revolving Loan Fund			<u>\$ 2,817,892</u>	<u>\$ 2,519,024</u>	

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 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.

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McGLADREY & PULLEN, LLP
Certified Public Accountants and Consultants

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

During our audit of the City's general purpose financial statements, we not only performed the traditional services required to issue our report on the general purpose financial statements, we also performed an objective assessment of the City's operations. During our audit we noted the following matters which we thought warranted your attention.

Personnel Files

During an examination of the City's personnel files in conjunction with test of the internal control system, we noted several instances of different forms either not in the file or not properly updated. We recommend that the Human Resources department review all personnel files; identify the forms required to be in compliance with federal, State and local ordinances; and update the files accordingly.

Direct Deposit

that City requires all employees to participate in the direct deposit
eliminate mitigating internal controls over the
necessary to physically distribute the pa
distribute the pa