

# **CITY OF KINSTON**

## **KINSTON, NORTH CAROLINA**

### **COMPLIANCE LETTERS**

#### **FOR THE YEAR ENDED JUNE 30, 2008**



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**Martin Starnes & Associates, CPAs, PA.**

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

**CITY OF KINSTON  
KINSTON, NORTH CAROLINA**

**COMPLIANCE LETTERS**

**FOR THE YEAR ENDED JUNE 30, 2008**

# **CITY OF KINSTON, NORTH CAROLINA**

## **Compliance Letters For the Year Ended June 30, 2008**

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## Martin Starnes & Associates, CPAs, P.A.

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

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### **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***

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

We have audited the accompanying 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, 2008, which collectively comprises the City of Kinston's basic financial statements, and have issued our report thereon dated September 24, 2008. 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.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the 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, but not for the purpose of expressing an opinion on the effectiveness of the City of Kinston's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, others within the organization, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.

September 24, 2008



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## Martin Starnes & Associates, CPAs, P.A.

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### **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 the 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, 2008. The City of Kinston's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings, responses, 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 the City of Kinston's management. Our responsibility is to express an opinion on the 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; and 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 the City of Kinston's compliance with those requirements.

In our opinion, the City of Kinston, North Carolina 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, 2008.

## **Internal Control Over Compliance**

The management of the City 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express and opinion on the effectiveness of the City's internal control over compliance.

A control deficiency in the City's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

## **Schedules of Expenditures of Federal and State Awards**

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, 2008, and have issued our report thereon dated September 24, 2008. Our audit was performed for the purpose of forming an opinion 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 OMB Circular A-133 and the State Single Audit Implementation Act and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of City Council, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.

September 24, 2008



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## Martin Starnes & Associates, CPAs, P.A.

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

### **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 the 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, 2008. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the City of Kinston's management. Our responsibility is to express an opinion on the 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; and OMB Circular A-133 as described in the *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 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 the City of Kinston's, compliance with those requirements.

In our opinion, the City of Kinston, North Carolina 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, 2008.

#### **Internal Control Over Compliance**

The management of the 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 the 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,

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's internal control over compliance.

A control deficiency in the City's internal control over compliance 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 noncompliance with a type of compliance requirement of a State program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a State program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a State program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a State program will not be prevented or detected by the City's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined below.

#### **Schedule of Expenditures of Federal and State Awards**

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, 2008, and have issued our report thereon dated September 24, 2008. Our audit was performed for the purpose of forming an opinion 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 OMB Circular A-133 and the State Single Audit Implementation Act and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, others within the organization, members of City Council, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.

September 24, 2008

## **CITY OF KINSTON, NORTH CAROLINA**

### **SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2008**

#### **1. Summary of Auditors' Results**

- A. An unqualified opinion was issued on the financial statements of the City of Kinston, North Carolina.
- B. Our audit of the basic financial statements disclosed no significant deficiencies or material weaknesses in internal controls
- C. Our audit of the basic financial statements disclosed no instances of noncompliance with laws, regulations, and the provisions of contracts and grant agreements that are material to the basic financial statements.
- D. Our audit of compliance with the types of compliance requirements applicable to the City's major programs disclosed no significant deficiencies or material weakness in internal controls over major programs.
- E. An unqualified opinion was issued on the City of Kinston, North Carolina's compliance with the types of compliance requirements applicable to its major federal programs.
- F. An unqualified opinion was issued on the City of Kinston, North Carolina's compliance with the types of compliance requirements applicable to its major State programs.
- G. Our audit disclosed no audit findings which related to federal and State awards.
- H. Major federal programs for the City of Kinston, North Carolina, for the fiscal year ended June 30, 2008 are:

<b><u>Program Name</u></b>	<b><u>CFDA#</u></b>
Family Emergency Management Agency Public Assistance Grant	97.036

- I. Major State programs for The City of Kinston, North Carolina for the fiscal year ended June 30, 2008 are:
  - Powell Bill
- J. The threshold for determining Type A programs for the City of Kinston, North Carolina is \$300,000.
- K. The City of Kinston, North Carolina, did not qualify as a low risk auditee under Section .530 of Circular No. A-133.

**CITY OF KINSTON, NORTH CAROLINA**

**SCHEDULE OF FINDINGS RESPONSES, AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2008**

**2. Findings Related to the Audit of the Basic Financial Statements**

None

**3. Findings and Questioned Costs Related to the Audit of Federal Awards**

None

**4. Findings and Questioned Costs Related to the Audit of State Awards**

None

**CITY OF KINSTON, NORTH CAROLINA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2008**

Prior Year Finding 07-1 was corrected in the current year.

**CITY OF KINSTON**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

<b>Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>State Pass-Through Grantor's Number</b>	<b>Federal Direct and Pass-Through Expenditures</b>	<b>State Expenditures</b>
Federal Grants:				
U.S. Department of Transportation				
Passed through the North Carolina Department of Transportation:				
Pedestrian Planning Grant	20.205-6		\$ 31,500	\$ -
US Department of Housing and Urban Development				
Pass through: NC Department of Commerce				
Individual Development Account	14.228		29,083	-
US Department of Justice				
Direct Programs:				
Ballistic Vest Grant	16.592		310	-
Justice Assistance Grant	16.738		48,249	-
<b>Total US Department of Justice</b>			<u>48,559</u>	<u>-</u>
US Department of Homeland Security				
Federal Emergency Management Agency				
Pass Through: NC Department of Crime				
Control and Public Safety				
Public Assistance Grants	97.036		907,712	302,571
<b>Total US Department of Homeland Security</b>			<u>907,712</u>	<u>302,571</u>
<b>State Grants (all direct):</b>				
NC Department of Transportation				
Nonstate System Street Aid				
Allocation (Powell Bill)	DOT-4		-	793,559
NC Department of Environment and				
Natural Resources				
Clean Water Management Trust Fund Water Reuse			-	99,388
Flood Buy-Out Project			-	130,806
Rural Development Center Grant			-	-
Rural Development Center Grant-Briery Run			-	61,318
Rural Development Center Grant-Smithfield			-	125,300
Division of Parks and Recreation				
Part F Grant			-	1,021
<b>Total NC Department of Environment and Natural Resources</b>			<u>-</u>	<u>417,833</u>
TIME				
Division of Community Assistance:				
Kinston Enterprise Center Incubator Project			-	60,335
Division of Commerce Finance Center:				
Industrial Development Fund-Lenox China Generator Project			-	171,925
Total NC Department of Commerce			<u>-</u>	<u>232,260</u>

**CITY OF KINSTON****SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

NC Department of Health and Human Services Caswell Center Project	_____ -	99,300
NC Department of Crime Control and Public Safety Governor's Crime Commission		
Gang Awareness, Training and Education	-	66,833
Gang Awareness, Training and Education Expansion	-	39,127
	_____ -	105,960
<b>Total federal expenditures</b>	<b>\$</b>	<b>1,016,854</b>
<b>Total State expenditures</b>		
<b>Total local expenditures</b>		<b>\$</b>
		<b>1,951,483</b>

**Notes to the Schedule of Expenditures of Federal and State Awards****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 and the State Single Audit Implementation Act*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.