

**CITY OF KINSTON  
NORTH CAROLINA**

**COMPLIANCE LETTERS**

**FOR THE YEAR ENDED JUNE 30, 2010**

# **CITY OF KINSTON, NORTH CAROLINA**

## **Compliance Letters For the Year Ended June 30, 2010**

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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 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, 2010, which collectively comprises the City of Kinston's basic financial statements, and have issued our report thereon dated September 20, 2010. 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 as a basis for designing 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 of Kinston's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City of Kinston's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, 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, 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 no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, others within the organization, members of the 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 20, 2010

# MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

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

## **Report On Compliance With Requirements That Could Have a Direct And Material Effect On 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 with the types of compliance requirements described in applicable sections of OMB *Circular A-133 Compliance Supplement* and 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 its major State programs for the year ended June 30, 2010. The City of Kinston's major State programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Responses. 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 applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, 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 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. Our audit does not provide a legal determination of the City of Kinston's compliance with those requirements.

In our opinion, the City of Kinston complied, in all material respects, with the 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, 2010.

## **Internal Control Over Compliance**

Management of the 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 State programs. In planning and performing our audit, 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 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, 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 a 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.

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 deficiencies, 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.

## **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, 2010, which collectively comprise the City of Kinston's basic financial statements and have issued our report thereon dated September 20, 2010. Our audit was performed for the purpose of forming an opinion of 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 for the information and use of management, others within the organization, members of the 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 20, 2010

# CITY OF KINSTON, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2010

### 1. Summary of Auditors' Results

#### Financial Statements:

Type of auditors' report issued Unqualified

Internal control over financial reporting:

- Material weakness(es) identified No
- Significant deficiency identified that are not considered to be material weaknesses No

Non-compliance material to financial statements noted No

#### State Awards:

Internal control over major State programs:

- Material weakness(es) identified No
- Significant deficiency identified that are not considered to be material weaknesses No

Type of auditors' 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 No

Identification of major State programs:

#### Program Name

Powell Bill  
Clean Water Management Trust Fund Water Reuse  
NC Rural Development Center Grants  
NC Department of Health and Human Services-Caswell Center Project

**CITY OF KINSTON, NORTH CAROLINA**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2010**

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

None

**3. 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, 2010**

**Finding 2009-1 – Corrected**

**Finding 2009-2 – Corrected**

**CITY OF KINSTON**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<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>
<b>Federal Grants:</b>				
<b>U.S. Department of Transportation</b>				
Pased through the North Carolina Department of Transportation:				
Highway Safety Cluster - Occupant Protection	20.602		\$ 10,324	\$ -
<b>US Department of Justice</b>				
2007 Ballistic Vest Grant	16.607		9,890	-
2009 Ballistic Vest Grant	16.607		9,300	-
2008 Justice Assistance Grant	16.738		5,721	-
2009 Justice Assistance Grant	16.738		54,058	-
2009 Justice Assistance Grant - ARRA	16.738		196,640	-
Community Oriented Policing Services - ARRA	16.710		49,786	-
Total US Department of Justice			<u>325,395</u>	<u>-</u>
<b>USDA Rural Development</b>				
Community Facilities Loans and Grants	10.780		21,662	-
Community Facilities Loans and Grants -ARRA	10.780		62,470	-
Total USDA Rural Development			<u>84,132</u>	<u>-</u>
<b>State Grants:</b>				
<b>NC Department of Transportation</b>				
Nonstate System Street Aid Allocation (Powell Bill)		DOT-4	-	618,548
Felix Harvey Parkway Extention Project			-	80,605
Martin Luther King Jr. Blvd Enhancement			-	20,124
Total NC Department of Transportation			<u>-</u>	<u>719,277</u>
<b>NC Department of Environment and Natural Resources</b>				
Clean Water Management Trust Fund Water Reuse			-	376,484
Clean Water Management Trust Fund -College Street Sewer Rehabilitation			-	176,731
Flood Buy-Out Project			-	15,273
Rural Development Center Grant- E Vernon Ave. Sewer Rehab			-	438,815
Rural Development Center Grant-Spirit AeroSystems Utilities			-	307,759
Rural Development Center Grant-Sanderson Farms Utilities			-	780,082
Rural Development Center Grant-Briery Run Sewer Phase III			-	549,304
Total NC Department of Environment and Natural Resources			<u>-</u>	<u>2,644,448</u>
<b>NC Department of Commerce</b>				
Division of Commerce Finance Center:				
Industrial Development Fund-Lenox China Generator Project			-	192,471
Total NC Department of Commerce			<u>-</u>	<u>192,471</u>

**CITY OF KINSTON**

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<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>
<b>NC Department of Health and Human Services</b>				
Caswell Center Project			-	930,675
<b>NC Department of Crime Control and Public Safety</b>				
Governor's Crime Commission			-	63,605
Gang Awareness, Training and Education			-	437
Gang Awareness, Training and Education Expansion			-	84,485
Total NC Department of Crime Control and Public Safety			-	148,527
<b>Total federal expenditures</b>			<u>\$ 419,851</u>	
<b>Total State expenditures</b>				<u>\$ 4,635,398</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 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 basic financial statements.