

**CITY OF KINSTON
NORTH CAROLINA**

COMPLIANCE LETTERS

FOR THE YEAR ENDED JUNE 30, 2015

CITY OF KINSTON, NORTH CAROLINA

COMPLIANCE LETTERS FOR THE YEAR ENDED JUNE 30, 2015

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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, 2015, 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 2, 2016.

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 a certain deficiency in internal control, described in the accompanying Schedule of Findings, Responses, and Questioned Costs as item 2015-001, that we consider to be a material weakness.

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 no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Kinston's Response to Finding

The City of Kinston's response to the finding identified in our audit is described in the accompanying Schedule of Findings, Reponses, and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 an 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 2, 2016

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Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; Report On The Schedule Of Expenditures Of Federal And State Awards As Required By OMB Circular A-133; 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 Federal Program

We have audited the City of Kinston, North Carolina's, compliance with the types of compliance requirements described in the 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 the City of Kinston's major federal programs for the year ended June 30, 2015. 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.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Kinston's major federal 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; 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 non-compliance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Kinston's compliance.

Opinion On Each Major Federal 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 federal programs for the year ended June 30, 2015.

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 federal 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 federal program and to test and report on internal control over compliance in accordance with 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 federal 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 federal 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 federal 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report On Schedule of Expenditures of Federal and State Awards Required by OMB Circular A-133 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, 2015, 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 2, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 financial statements as a whole.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
February 2, 2016

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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 As Required By OMB Circular A-133; 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, 2015. 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 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 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, 2015.

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 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal and State Awards Required by OMB Circular A-133 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, 2015, 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 2, 2016, 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 2, 2016

CITY OF KINSTON, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	Yes
• Significant deficiency(ies) identified not considered to be material weakness(es)?	None reported
Non-compliance material to financial statements noted?	No

Federal Awards

Internal control over major federal programs:	
• Material weakness identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major federal programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	No

Identification of major federal programs:

<u>Program Name</u>	<u>CFDA#</u>
Capitalization Grants for Clean Water State Revolving Fund	66.458

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	No
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CITY OF KINSTON, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

State Awards

Internal control over major State programs:

• Material weakness identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	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

Golden Leaf Foundation

Rural Center Grant

Department of Transportation - Queen Street Utility Relocation

CITY OF KINSTON, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

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

Finding 2015-001 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.

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.

Name of Contact Person: Catherine Gwynn, Finance Director

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.

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

None reported

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

None reported

CITY OF KINSTON, NORTH CAROLINA

SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2015

Finding 2014-001 – Corrected in current year

Finding 2014-002 – Repeated as 2015-001

CITY OF KINSTON, NORTH CAROLINA**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

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:				
US Department of Housing and Urban Development				
CDBG - State-Administered CDBG Cluster				
Passed-through the NC Department of Commerce				
Community Development Block Grant -Catalyst Kinston Slum and Blight Initiative	14.228		\$ 114,346	\$ -
Small Cities Community Development Block Grant Program (CDBG):				
Talent Enhancement and Capacity Building Grant Program	14.228		634	-
Total US Department of Housing and Urban Development			<u>114,980</u>	<u>-</u>
US Department of Justice				
JAG Program:				
Passed-through the NC Department of Public Safety				
Edward Byrne Memorial Justice Assistance Grant Program - 2014	16.738		33,447	-
Edward Byrne Memorial Justice Assistance Grant Program - 2015	16.738		3,920	-
JAG Program:			<u>37,367</u>	<u>-</u>
Bulletproof Vest Partnership Program	16.607		<u>10,871</u>	<u>-</u>
Total US Department of Justice			<u>48,238</u>	<u>-</u>
US National Endowment for the Arts				
Passed-through the NC Department of Cultural Resources				
Promotion of the Arts Grants to Organizations and Individuals	45.024		<u>32,505</u>	<u>-</u>
Environmental Protection Agency				
Brownfields Assessment and Cleanup Cooperative Agreements for Martin	66.818		<u>49,242</u>	<u>-</u>
Luther King Jr. Boulevard Corridor				
Passed through the North Carolina Department of Environment & Natural Resources				
Division of Water Quality				
Capitalization Grants for Clean Water State Revolving Fund - Smithfield Sewer Construction	66.458		736,135	-
Capitalization Grants for Clean Water State Revolving Fund - Queen Street Construction	66.458		<u>375,382</u>	<u>-</u>
Total U.S. Environmental Protection Agency			<u>1,160,759</u>	<u>-</u>
State Grants:				
NC Department of Transportation				
Non-state System Street Aid Allocation (Powell Bill)	DOT-4		- 640,014	
Queen Street Utility Relocation Project			- 413,636	
College Street Railroad Crossing Project			- 226,222	
Total NC Department of Transportation			<u>- 1,279,872</u>	
Golden Leaf Foundation				
Highway 70 Industrial Park Sewer Expansion			- 1,029,634	
Rural Economic Development Center				
Smithfield Foods, Inc. / Lift Station and Forcemain Installation Project			<u>- 792,185</u>	
Total Federal expenditures			<u>\$ 1,356,482</u>	
Total State expenditures			<u>\$ 3,101,691</u>	

CITY OF KINSTON, NORTH CAROLINA**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015****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, 2015. The information in the SEFSA is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit organizations and the State Single Audit Implementation Act. Because the SEFSA 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.

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 OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments or cost principles contained in the Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursements. Pass-through entity identifying numbers are presented where available.

Note 3: Loans Outstanding

The City of Kinston had the following loan balances outstanding at June 30, 2015. The loan made during the year are included in the SEFSA in the federal expenditures presented in the schedule. Balances and transactions related to these programs are included in City of Kinston's basic financial statements.

Program Name	CFDA Number	Amount Outstanding
Capitalization Grants for Clean Water State Revolving Fund - Queen Street Construction	66.458	\$ -
Capitalization Grants for Clean Water State Revolving Fund - Smithfield sewer construction	66.458	736,135