

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

DAVIDSON COUNTY SMART START, INC.

LEXINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2000

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

DAVIDSON COUNTY SMART START, INC.

LEXINGTON, NORTH CAROLINA

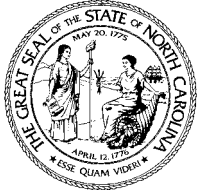
FOR THE YEAR ENDED JUNE 30, 2000

BOARD OF DIRECTORS

NANCY BATES, CHAIRMAN

ADMINISTRATIVE OFFICER

ROGER BAILEY, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Davidson County Smart Start, Inc.

This report presents the results of our financial statement audit of the Davidson County Smart Start, Inc. (Davidson Partnership) as of and for the year ended June 30, 2000. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the Davidson Partnership were subject to audit procedures as we considered necessary for us to report on the accompanying financial statement. The audit procedures were conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States.

The audit of the Davidson Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-16. This statute created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Davidson Partnership is one of these local partnerships. As such, the Davidson Partnership is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have an annual financial and compliance audit conducted by the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statement. A summary of our reporting objectives and audit results are:

1. **Objective** - Express an opinion on the financial statement.

Results – The accompanying financial statement presents fairly, in all material respects, the amounts and disclosures made in accordance with the regulatory basis of accounting established by the North Carolina Partnership for Children, Inc. These matters are described in the Independent Auditor's Report.

2. **Objective** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no instances of noncompliance which require disclosure herein under *Government Auditing Standards*.

AUDITOR'S TRANSMITTAL (CONCLUDED)

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Davidson Partnership's ability to record, process, summarize, and report financial data in the financial statement.

Results - The following significant deficiency was detected in internal control over financial reporting:

Finding

Control Environment

This matter is described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Davidson County Smart Start, Inc.
Lexington, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Davidson County Smart Start, Inc. (Davidson Partnership) as of and for the year ended June 30, 2000. This financial statement is the responsibility of the Davidson Partnership's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statement was prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc., which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the net assets of the Davidson County Smart Start, Inc. as of June 30, 2000, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2001 on our consideration of the Davidson Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was made for the purpose of forming an opinion on the basic financial statement of the Davidson County Smart Start, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statement. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

This report is intended solely for the information and use of the management of the partnership, the North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

January 9, 2001

Davidson County Smart Start, Inc.
Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis
For the Year Ended June 30, 2000

	Unrestricted Funds		Total Funds
	Smart Start Fund	Other Funds	
Receipts:			
State Awards (less refunds of \$126,303)	\$ 784,815	\$ 12,000	\$ 796,815
Private Contributions		25,301	25,301
Interest and Investment Earnings		3,342	3,342
Sales Tax Refunds		15,961	15,961
Other Receipts	30		30
Total Receipts	784,845	56,604	841,449
Expenditures:			
Programs:			
Child Care and Education Quality	125,193	989	126,182
Child Care and Education Accessibility and Availability	10		10
Child Care and Education Affordability	184,799		184,799
Family Support	45,619	1,419	47,038
Support:			
Management and General	286,870	19,332	306,202
Program Evaluation		165	165
Program Coordination	38,768	2,105	40,873
Fund Raising		91	91
Other:			
Sales Tax Paid	33	4,004	4,037
Total Expenditures	681,292	28,105	709,397
Excess of Receipts Over Expenditures	103,553	28,499	132,052
Net Assets at Beginning of Year	129,751	8,385	138,136
Net Assets at End of Year	\$ 233,304	\$ 36,884	\$ 270,188
Net Assets Consisted of:			
Cash on Deposit	\$ 233,304	\$ 36,884	\$ 270,188

The accompanying notes to the financial statement are an integral part of this statement.

DAVIDSON COUNTY SMART START, INC.
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2000

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Davidson County Smart Start, Inc. (Davidson Partnership) is a legally separate nonprofit organization incorporated on February 10, 1994. The Davidson Partnership was established to develop and provide, through public and private means, early childhood education and development services for children and families. The Davidson Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.

B. Basis of Presentation - The accompanying financial statement presents all funds for which the Davidson Partnership's Board of Directors is responsible. In accordance with Statement of Financial Accounting Standards (SFAS) No. 117 "Financial Statements of Not-For-Profit Organizations," the accompanying financial statement presents information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

The Davidson Partnership did not have any temporarily or permanently restricted net assets at June 30, 2000.

C. Basis of Accounting - The accompanying financial statement was prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc. This basis differs from generally accepted accounting principles primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned, and it recognizes expenditures when paid rather than when incurred.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

NOTE 2 - DEPOSITS

All funds of the Davidson Partnership are deposited in a board-designated bank which potentially subjects the Davidson Partnership to a concentration of credit risk. The Davidson Partnership had the following balances in established accounts at June 30, 2000:

	<u>Book Balance</u>	<u>Bank Balance</u>
Non-Interest Bearing Checking Account	\$ 420	\$ 420
Interest Bearing Checking Account	<u>269,768</u>	<u>517,895</u>
Total Deposits	<u>\$ 270,188</u>	<u>\$ 518,315</u>

The Davidson Partnership's deposits are with a commercial bank and insured by the FDIC up to \$100,000. The Davidson Partnership's bank deposits in excess of the FDIC insured limit totaled \$418,315 at June 30, 2000.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Davidson Partnership's major source of revenue and support is from the State of North Carolina based on cost-reimbursement contracts with the North Carolina Partnership for Children, Inc. (NCPC) for the Smart Start Program. A significant reduction in the level of funding from the State could have an adverse effect on the operations of the Davidson Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Davidson Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, NCPC and the Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Davidson Partnership. These service provider contracts are not reflected on the accompanying financial statement. However, a summary of the service provider contracts entered into by NCPC and DHHS are presented on Schedule 3 accompanying the financial statement.

The Davidson Partnership was awarded \$1,036,118 under a current year Smart Start contract with NCPC and has received \$911,118 of this amount. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$229,826 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2000. As allowed by program regulation, the unexpended balance of the current year

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

contract is available for carry-forward to the subsequent year based on approved service plans by NCPC.

The Partnership expects to receive continued funding through new Smart Start contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Davidson Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Davidson Partnership that board members not be involved with decisions regarding organizations they represent. During the year the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 2 accompanying the financial statement. In addition, Schedule 3 identifies contracts entered into by NCPC and DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of receipts, expenditures, and net assets. Also, Schedule 1, accompanying the financial statement, provides detail of the functional costs by their natural classification. Following are the functional categories presented in the accompanying financial statement and the services associated with those functions:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including program upgrade projects, child care resource and referral, and T.E.A.C.H. support.

Child Care and Education Accessibility and Availability - Used to account for service activities associated with increase child care spaces.

Child Care and Education Affordability - Used to account for service activities including increase the market rate and supplement for quality.

Family Support - Used to account for service activities including support services for children in crisis, family crisis intervention, and information and resources.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

B. Support Functions

Management and General - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

Program Evaluation - Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

Program Coordination - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

Fund Raising - Expenditures that are incurred in inducing others to contribute money, securities, time, materials, or facilities for which the contributor will receive no direct economic benefit.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The following is a schedule by years of future minimum rental payments required under leases that have noncancelable lease terms as of June 30, 2000:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2001	\$ 3,293
2002	<u>1,372</u>
Total Minimum Lease Payments	<u>\$ 4,665</u>

Total rental expenditure for all operating leases was \$5,209 for the year ended June 30, 2000.

NOTE 7 - PENSION PLAN

The Davidson Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Davidson Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Davidson Partnership contributed 6% of gross wages for the year ended June 30, 2000. The Davidson Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

For the year ended June 30, 2000, the Davidson Partnership had a total payroll of \$165,506, all of which was covered under the plan. The Partnership contributed \$9,930 for pension benefits during the year.

IRC Section 403(b) - All permanent employees who are at least half-time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. All costs of administering and funding this plan are the responsibility of the plan. The Davidson Partnership contributed 12% of the Executive Director's gross wages for this plan. For the year ended June 30, 2000, the Davidson Partnership had payroll costs of \$20,737 subject to the benefits of the plan. The Davidson Partnership contributed \$2,488 for these pension benefits during the year.

Davidson County Smart Start, Inc.
Schedule of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2000

Schedule 1

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenses	Fixed Charges and Other Expenses	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training Expense
Smart Start Fund:									
Programs:									
Child Care and Education Quality	125,193	3,384	12,058	3,283	3,505	468	8,387	94,108	
Child Care and Education Accessibility and Availability	10				10				
Child Care and Education Affordability	184,799			74	77			184,648	
Family Support	45,619	4,147	5,996	3,868	21,850			9,758	
	355,621	7,531	18,054	7,225	25,442	468	8,387	298,514	0
Support:									
Management and General	295,870	164,576	24,728	12,755	35,500	9,677	39,634		
Program Coordination	38,768	37,696			1,072				
	325,638	202,272	24,728	12,765	36,572	9,677	39,634	0	0
Other:									
Sales Tax Paid	33	0	0	33	0	0	0	0	0
	681,292	209,803	42,782	20,013	62,014	10,145	48,021	298,514	0
Total Smart Start Fund Expenditures									
Other Funds:									
Programs:									
Child Care and Education Quality	989			497			492		
Family Support	1,419							1,419	
	2,408	0	0	497	0	0	492	1,419	0
Support:									
Management and General	19,332		2,040	851	3,038	6,844	6,559		
Program Evaluation	165				165				
Program Coordination	2,105	1,228		578	299				
Fund Raising	91					91			
	21,693	1,228	2,040	1,429	3,502	6,935	6,559	0	0
Other:									
Sales Tax Paid	4,004	0	0	4,004	0	0	0	0	0
	28,105	1,228	2,040	5,930	3,502	6,935	7,051	1,419	0
Total Other Funds Expenditures									

Davidson County Smart Start, Inc.
Schedule of Contract and Grant Expenditures - Regulatory Basis
For the Year Ended June 30, 2000

Schedule 2

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Coggins Memorial Baptist Church Child Development Center *	40,232			
Davidson County Community College Child Development Center *	16,884		951	
Fleshman Pratt Education Center	12,990			
Heritage Child Enrichment Centers	33,122			
Kid City Day Care, Incorporated	12,235			
Lexington Day Care, Incorporated	14,025			
Tyro Learning Center	27,583			
Various Day Care Organizations	79,388		468	
	236,459	0	1,419	0
Individuals:				
Education for Stars Awards	21,000			
Subsidy Licensure and Credential Improvement Plan	31,055			
	52,055	0	0	0
	288,514	0	1,419	0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

Davidson County Smart Start, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2000

Schedule 3

Organization Name	DHHS Contracts	NCPC Contracts	Total Contracts
Baptist Children's Homes of North Carolina, Incorporated		8,133	8,133
Child Care Services Association - WAGES Program	106,108		106,108
Coggins Memorial Baptist Church *		82,404	82,404
Community General Hospital		20,633	20,633
Davidson County Area Program for MH, DD, SAS Authority *		41,350	41,350
Davidson County Board of Education *		417,359	417,359
Davidson County Community College *		296,827	296,827
Davidson County Department of Social Services - Services Support *	147,357		147,357
Davidson County Department of Social Services - Subsidized Care *	1,409,600		1,409,600
Davidson County Department of Transportation *		140,000	140,000
Davidson County Health Department *		175,600	175,600
Davidson County Public Library *		96,570	96,570
Fairgrove Family Resource Center		90,000	90,000
Family Services of Davidson County		122,373	122,373
Mary Etta Professional Services		43,100	43,100
Northwest Child Development Council, Incorporated		109,335	109,335
South Davidson Family Resource Center *		74,921	74,921
Thomasville City Schools *		135,000	135,000
	1,663,065	1,853,605	3,516,670

* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.

The information on this schedule provides a listing of service provider contracts entered into by either the Department of Health and Human Services (DHHS) or the NC Partnership for Children, Inc. (NCPC) as described in Note 3 - Funding From Grant Awards.

Davidson County Smart Start, Inc.
Schedule of State Awards - Regulatory Basis
For the Year Ended June 30, 2000

Schedule 4

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
State Awards:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	* #1-89-1-05-001	\$ (126,303)	\$ 0
Early Childhood Initiatives Program (Current Year)	* #1-90-1-05-001	911,118	681,292
MAC Funding	N/A	<u>12,000</u>	<u>11,421</u>
Total State Awards		<u><u>\$ 796,815</u></u>	<u><u>\$ 692,713</u></u>

* Programs with compliance requirements that have a direct and material effect on the financial statement.

Davidson County Smart Start, Inc.
Schedule of Property and Equipment
June 30, 2000

Schedule 5

Furniture and Non-Computer Equipment	\$ 7,918
Computer Equipment/Printers	53,766
Buildings	55,606
Leasehold Improvements	<u>25,484</u>
Total Property and Equipment	<u><u>\$ 142,774</u></u>

Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. On the regulatory basis of accounting, these items are expensed in the year purchased.

**Davidson County Smart Start, Inc.
Schedule of Qualifying Match
For the Year Ended June 30, 2000**

Schedule 6

Match Provided at the Partnership Level:

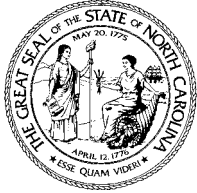
Cash	\$ 25,301
In-Kind Goods and Services	<u>4,789</u>
	<u>\$ 30,090</u>

Note: The cash amount reported has been recorded in the financial statements of the partnership. The in-kind donation amount presented above represents non-cash contributions received from non-state sources that meet the criteria for recognition per SFAS No. 116.

***Match Provided at the Contractor Level:
(Unaudited)***

Cash	\$ 90,210
In-Kind Goods and Services	<u>148,433</u>
	<u>\$ 238,643</u>

Note: The above amounts represent expenses, paid by cash or in-kind contributions, incurred by other participating non-State entities contracting with the local partnership. These amounts have been corroborated as to being reported to the local partnership and certified by the contractor. The amounts reported have been reviewed to determine they are verifiable and allowable per legislative requirements. However, we have not verified the amounts reported to the contractors' underlying records.



Ralph Campbell, Jr.
State Auditor

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Davidson County Smart Start, Inc.
Lexington, North Carolina

We have audited the financial statement of the Davidson County Smart Start, Inc. (Davidson Partnership) as of and for the year ended June 30, 2000, and have issued our report thereon dated January 9, 2001. 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 the Davidson Partnership's financial statement is 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 are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Davidson Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statement 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. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial reporting

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

that, in our judgment, could adversely affect the Davidson Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statement. This reportable condition is described in the accompanying Audit Findings and Recommendations section as follows:

Finding

Control Environment

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 statement 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 that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of the management of the partnership, the North Carolina Partnership for Children, the Governor, and the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

January 9, 2001

AUDIT FINDINGS AND RECOMMENDATIONS

Material Findings and Recommendations from Prior Audits - The following presents the status of a finding and recommendation presented in the prior year audit report that affected the current year audit objectives.

CONTROL ENVIRONMENT

Audit issues including management turnover, inadequate policies and procedures, and a lack of a well-defined organizational structure have been identified in our previous audits. These issues were first reported in the June 30, 1997 report.

This finding is partially resolved. A new executive director was hired during the year which has brought management stability to the Davidson Partnership. He has worked both with the Board and staff to define roles, responsibilities, and reporting relationships within the required mission of the Partnership. However, the issue of policy development and implementation continues for our fiscal year. This includes the further development of the Partnership's contract management and monitoring systems to ensure that documentation is received and maintained to support the expenditure of funds.

Recommendation: We recommend that the Davidson Partnership continue with its policy development and implementation for the operations of the Partnership with an emphasis on the area of contracts management/monitoring.

Partnership's Response: The State Auditors are correct in noting the significant progress made in the past fiscal year toward strengthening the Partnership's control environment.

Actions to resolve the final issues continue:

- Complete accounting procedures were developed and implemented effective July 1, 2000. These procedures will be fine-tuned based on recommendations from the State Auditors;
- In October 2000 a written program review procedure was implemented;
- The allocation process is being written;
- A contracts management/monitoring process is being written to document current and future activity, including computerized record keeping.

We feel confident that the auditors will find the control environment issue resolved, during the next audit.

DISTRIBUTION OF AUDIT REPORT

In accordance with G.S. § 147-64.5 and G.S. § 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
Mr. Edward Renfrow	State Controller
Ms. Carmen Hooker Buell	Secretary, Department of Health and Human Services
Mr. Ashley Thrift	Chairman, Board of Directors North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	Executive Director North Carolina Partnership for Children, Inc.

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March 9, 2001

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