

**FINANCIAL STATEMENT AUDIT REPORT OF  
BUNCOMBE COUNTY PARTNERSHIP FOR CHILDREN,  
INC.**

**ASHEVILLE, NORTH CAROLINA  
FOR THE YEAR ENDED JUNE 30, 2001**

**PERFORMED UNDER CONTRACT WITH THE  
NORTH CAROLINA OFFICE OF STATE AUDITOR  
RALPH CAMPBELL, JR.**

**FINANCIAL STATEMENT AUDIT REPORT OF  
BUNCOMBE COUNTY PARTNERSHIP FOR CHILDREN, INC.**

**ASHEVILLE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2001**

**BOARD OF DIRECTORS**

**MARK GORDON, CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**N. RONALD BRADFORD, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA

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## AUDITOR'S TRANSMITTAL

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Directors, Buncombe County Partnership for Children, Inc.

This report presents the results of the financial statement audit of the Buncombe County Partnership for Children, Inc. for the year ended June 30, 2001. Crisp Hughes Evans LLP performed the audit under contract with the Office of the State Auditor, and their report is submitted herewith.

The audit of the Buncombe County Partnership for Children, Inc. 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 partnerships. The Buncombe County Partnership for Children, Inc. is one of these local partnerships. As such, the Buncombe County Partnership for Children, Inc. is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or coordinate all audit functions for state government is set forth in Article 5 of Chapter 147 of the North Carolina General Statutes.

The significant Smart Start expansion authorized in the 1998 fiscal year almost doubled the related audit burden placed on the Office of the State Auditor. Therefore, the General Assembly, in its 1998-99 Expansion Budget, gave recognition to the resources needed to provide the audit oversight required by statute. Those resources incorporated a combination of permanent positions and contract funding to make the Smart Start audit effort self-sustaining.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of all 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.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.  
State Auditor

# TABLE OF CONTENTS

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	PAGE
INDEPENDENT AUDITORS' REPORT .....	1
FINANCIAL STATEMENTS	
EXHIBITS	
A - Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis.....	3
B - Statement of Functional Expenditures - Regulatory Basis.....	4
Notes to the Financial Statements.....	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures - Regulatory Basis .....	10
2 Schedule of State Level Service Provider Contracts .....	11
3 Schedule of Federal and State Awards - Regulatory Basis.....	12
4 Schedule of Property and Equipment.....	13
5 Schedule of Qualifying Match (Non-GAAP) .....	14
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i> .....	15
AUDIT FINDINGS AND RECOMMENDATIONS.....	17
DISTRIBUTION OF AUDIT REPORT .....	18

## INDEPENDENT AUDITORS' REPORT

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Board of Directors  
Buncombe County Partnership for Children, Inc.  
Asheville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Buncombe County Partnership for Children, Inc. (Buncombe Partnership) as of June 30, 2001, and the related Statement of Functional Expenditures - Regulatory Basis for the year then ended. These financial statements are the responsibility of the Buncombe Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 statements. 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 statements were 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 accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Buncombe County Partnership for Children, Inc. as of June 30, 2001, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

## INDEPENDENT AUDITORS' REPORT (CONCLUDED)

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In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2002 on our consideration of the Buncombe 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 auditors' report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Buncombe Partnership 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 statements. The information in these schedules 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 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.

April 10, 2002

*Crisp Hughes Evans LLP*

***Buncombe County Partnership for Children, Inc.***

***Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis***

***For the Year Ended June 30, 2001***

***Exhibit A***

	Unrestricted Funds		Total Funds
	Smart Start Fund	Other Funds	
<b>Receipts:</b>			
State Awards (less refunds of \$731,758)	\$ 2,754,668	\$ 13,000	\$ 2,767,668
Federal Awards	-	9,000	9,000
Private Contributions	-	70,754	70,754
Interest and Investment Earnings	-	19,052	19,052
Sales Tax Refunds	-	2,164	2,164
Other Receipts	-	52,290	52,290
<b>Total Receipts</b>	<u>2,754,668</u>	<u>166,260</u>	<u>2,920,928</u>
<b>Expenditures:</b>			
Programs:			
Child Care and Education Quality	1,640,311	58,996	1,699,307
Child Care and Education Accessibility and Availability	240,000	-	240,000
Child Care and Education Affordability	282,970	-	282,970
Health and Safety	636,482	-	636,482
Family Support	281,469	21,468	302,937
Support:			
Management and General	245,538	64,240	309,778
Program Evaluation	119,499	6,442	125,941
Other:			
Sales Tax Paid	-	2,768	2,768
<b>Total Expenditures</b>	<u>3,446,269</u>	<u>153,914</u>	<u>3,600,183</u>
<b>Excess of Receipts Over (Under) Expenditures</b>	(891,601)	12,346	(879,255)
<b>Net Assets at Beginning of Year</b>	<u>731,758</u>	<u>14,816</u>	<u>746,574</u>
<b>Net Assets at End of Year</b>	<u>\$ 40,157</u>	<u>\$ 27,162</u>	<u>\$ 67,319</u>
<b>Net Assets Consisted of:</b>			
Cash on Deposit	\$ 28,296	\$ 27,162	\$ 55,458
Refunds Due From Contractors	11,861	-	11,861
	<u>\$ 40,157</u>	<u>\$ 27,162</u>	<u>\$ 67,319</u>

The accompanying notes are an integral part of these statements.

*Buncombe County Partnership for Children, Inc.*  
*Statement of Functional Expenditures - Regulatory Basis*  
*For the Year Ended June 30, 2001*

*Exhibit B*

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating	Fixed Charges and Other	Property and Equipment Outlay	Services/ Contracts/ Grants	Participant Training
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$1,640,311	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$1,640,311	\$ -
Child Care and Education Accessibility and Availability	240,000	-	-	-	-	-	-	240,000	-
Child Care and Education Affordability	282,970	-	-	-	-	-	-	282,970	-
Health and Safety	636,482	-	-	-	-	-	-	636,482	-
Family Support	281,469	-	-	-	-	-	-	281,469	-
<b>Support:</b>									
Management and General	245,538	105,172	33,706	8,135	59,404	33,480	5,641	-	-
Program Evaluation	119,499	52,993	48,750	-	1,199	157	1,400	15,000	-
<b>Total Smart Start Fund Expenditures</b>	<b>\$3,446,269</b>	<b>\$ 158,165</b>	<b>\$ 82,456</b>	<b>\$ 8,135</b>	<b>\$ 60,603</b>	<b>\$ 33,637</b>	<b>\$ 7,041</b>	<b>\$3,096,232</b>	<b>\$ -</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 58,996	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,996	\$ -
Family Support	21,468	-	4,968	7,458	8,894	-	-	-	150
<b>Support:</b>									
Management and General	64,240	20,740	43,500	-	-	-	-	-	-
Program Evaluation	6,442	1,506	-	-	-	-	4,936	-	-
<b>Other:</b>									
Sales Tax Paid	2,768	-	-	2,768	-	-	-	-	-
<b>Total Other Funds Expenditures</b>	<b>\$ 153,914</b>	<b>\$ 22,246</b>	<b>\$ 48,468</b>	<b>\$ 10,224</b>	<b>\$ 8,894</b>	<b>\$ -</b>	<b>\$ 4,936</b>	<b>\$ 58,996</b>	<b>\$ 150</b>

The accompanying notes are an integral part of these statements.



**BUNCOMBE COUNTY PARTNERSHIP FOR CHILDREN, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** - The Buncombe County Partnership for Children, Inc. (Buncombe Partnership) is a legally separate nonprofit organization incorporated on October 6, 1995. The Buncombe Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Buncombe 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 statements present all funds for which the Buncombe 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 statements present 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 Buncombe Partnership did not have any temporarily or permanently restricted net assets at June 30, 2001.

**C. Basis of Accounting** - The accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc. This basis differs from accounting principles generally accepted in the United States of America 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.

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**D. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year end which are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the state awards balance.

### **NOTE 2 - DEPOSITS**

All funds of the Buncombe Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subject the Buncombe Partnership to a concentration of credit risk. At June 30, 2001, the Buncombe Partnership's bank deposits in excess of the FDIC insured limit was \$214,951.

### **NOTE 3 - FUNDING FROM GRANT AWARDS**

**Smart Start Program** - The Buncombe 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 Buncombe Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Buncombe 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, the Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Buncombe Partnership. These service provider contracts are not reflected on the accompanying financial statement. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Buncombe Partnership was awarded \$3,486,535 and has received \$3,486,426 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$40,157 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2001.

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

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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### **NOTE 4 - RELATED PARTY TRANSACTIONS**

**Service Provider Contracts with Board Member Organizations** - The board members of the Buncombe Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Buncombe 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 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by 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 - Regulatory Basis. Also, the Statement of Functional Expenditures - Regulatory Basis provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements:

#### **A. Program Functions**

**Child Care and Education Quality** - Used to account for service activities including quality enhancement grants, child care substitutes, salary supplements, environmental assessment, outreach materials, and outreach plan to assess service.

**Child Care and Education Accessibility and Availability** - Used to account for service activities associated with inclusion support.

**Child Care and Education Affordability** - Used to account for service activities including scholarship program, head start classrooms, and transportation to child care.

**Health and Safety** - Used to account for service activities including comprehensive dental services, outreach nurses, child abuse and neglect intervention.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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**Family Support** - Used to account for service activities associated with parenting education.

**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.

**NOTE 6 - COMMITMENTS AND CONTINGENCIES**

**Leases** - The following is a schedule by years of future minimum rental payments required under leases that have noncancelable lease terms as of June 30, 2001:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2002	\$ 25,725
2003	15,435
<b>Total Minimum Lease Payments</b>	<b>\$ 41,160</b>

Total rental expenditure for all operating leases was \$24,600 for the year ended June 30, 2001.

**NOTE 7 - PENSION PLAN**

The Buncombe Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Buncombe Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Buncombe Partnership contributed 8.5% of gross wages for the year ended June 30, 2001. The Buncombe Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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For the year ended June 30, 2001, the Buncombe Partnership had a total payroll of \$143,426, \$95,600 of which was covered under the plan. The Partnership contributed \$8,126 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. No costs are incurred by the Buncombe Partnership. The voluntary contributions by employees amounted to \$10,520 during the year ended June 30, 2001.

***Buncombe County Partnership for Children, Inc.***

***Schedule of Contract and Grant Expenditures - Regulatory Basis***

***For the Year Ended June 30, 2001***

***Schedule 1***

<b>Organization Name</b>	<b>Smart Start Fund</b>		<b>Other Funds</b>	
	<b>Amount Advanced</b>	<b>Refund Due</b>	<b>Amount Advanced</b>	<b>Refund Due</b>
Asheville-Buncombe Technical Community College *	\$ 6,791	\$ (115)	\$ -	\$ -
Asheville City Schools *	15,000	(487)	-	-
Asheville City Schools Preschool *	127,425	-	-	-
Black Mountain Family Center	8,774	(395)	-	-
Blue Ridge Center *	58,364	(1,576)	-	-
Buncombe County Child Care Services *	552,970	-	-	-
Buncombe County Department of Social Services *	113,000	(8,121)	-	-
Buncombe County Health Center *	469,455	-	-	-
Buncombe County Public Library *	47,515	-	-	-
Buncombe County Schools *	7,739	-	-	-
Channels for Child Care Advancement	15,000	-	-	-
Children First	5,717	-	-	-
Eliada Homes, Inc.	67,195	-	-	-
Emma Family Resource Center Learning Group	9,279	-	-	-
High County Art and Craft Guild	28,116	-	-	-
Holiday Inn Sunspree	1,720	-	-	-
Howard Hanger Jazz Fantasy	500	-	-	-
MarCOMM, Inc.	184,750	(79)	-	-
Mount Zion Community Development, Inc.	13,083	-	-	-
Mountain Area Child and Family	-	-	50,000	-
Mountain Area Health Education Center	15,000	-	-	-
North Carolina Family Based Service Association, Inc.	250	-	-	-
Orelena Hawks Puckett Institute	744,948	(920)	-	-
Various Day Care Providers	446,502	-	8,996	-
WNC Child Advocacy and Prevention Services, Inc.	100,000	(168)	-	-
Western North Carolina Community Health *	19,000	-	-	-
YWCA	50,000	-	-	-
	<b>\$ 3,108,093</b>	<b>\$ (11,861)</b>	<b>\$ 58,996</b>	<b>\$ -</b>

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

See Independent Auditors' Report.

***Buncombe County Partnership for Children, Inc.***  
***Schedule of State Level Service Provider Contracts***  
***For the Year Ended June 30, 2001***

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>
Buncombe County Department of Social Services	\$ 2,140,136
Child Care Services Association - WAGE\$ Program	245,650
	<b>\$ 2,385,786</b>

\* 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 the Department of Health and Human Services (DHHS) as described in Note 3 - Funding From Grant Awards.

See Independent Auditors' Report.

***Buncombe County Partnership for Children, Inc.***  
***Schedule of Federal and State Awards - Regulatory Basis***  
***For the Year Ended June 30, 2001***

***Schedule 3***

<u>Federal/State Grantor/Pass-through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
<b>Federal Awards:</b>				
U.S. Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Social Services				
Responsible Fatherhood Initiative	93.597	00446-01	\$ 9,000	\$ 9,000
<b>State Awards:</b>				
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)	N/A	* 1-90-3-02-001	(731,758)	-
Early Childhood Initiatives Program (Current Year)	N/A	* 1-01-3-02-001	3,486,426	3,446,269
Multi-County Accounting and Contracting Grant	N/A	-	12,000	12,000
			2,766,668	3,458,269
Division of Social Services				
Responsible Fatherhood Initiative	N/A	00446-01	1,000	1,000
<b>Total State Awards</b>			<u>2,767,668</u>	<u>3,459,269</u>
<b>Total Federal and State Awards</b>			<u>\$ 2,776,668</u>	<u>\$ 3,468,269</u>

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

See Independent Auditors' Report.



***Buncombe County Partnership for Children, Inc.***  
***Schedule of Property and Equipment***  
***For the Year Ended June 30, 2001***

***Schedule 4***

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Furniture and Non-Computer Equipment	\$ 7,354
Computer Equipment/Printers	27,718
Leasehold Improvements	<u>3,246</u>
Total Property and Equipment	<u>\$ 38,318</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

See Independent Auditors' Report.

***Buncombe County Partnership for Children, Inc.***  
***Schedule of Qualifying Match (Non-GAAP)***  
***For the Year Ended June 30, 2001***

***Schedule 5***

***Match Provided at the Partnership Level:***

Cash	\$ 70,754
In-Kind Goods and Services	<u>29,254</u>
	<u>\$ 100,008</u>

***Match Provided at the Contractor Level:***

Cash	\$ 456,655
In-Kind Goods and Services	<u>537,046</u>
	<u>\$ 993,701</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 1999-237, Section 11.48(l). The law allows for volunteer services to be valued for match purposes, a concept that deviates from accounting principles generally accepted in the United States of America.

See Independent Auditors' Report.

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

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Board of Directors  
Buncombe County Partnership for Children, Inc.  
Asheville, North Carolina

We have audited the financial statements of the Buncombe County Partnership for Children, Inc. (Buncombe Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated April 10, 2002. 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.

Compliance

As part of obtaining reasonable assurance about whether the Buncombe Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Buncombe Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable

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

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conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Buncombe Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

1. Internal Control
2. Contract Management and Monitoring

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control 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 conditions described above to be material weaknesses.

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.

April 10, 2002

*Crisp Hughes Evans LLP*

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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**Material Findings and Recommendations from Prior Audits** - The following presents the status of material findings and recommendations presented in the prior year audit report that affected the current year audit of the financial statements.

### 1. INTERNAL CONTROL

During the audit of the Buncombe Partnership, we assessed the status of the following weaknesses in the Partnership's internal control identified in prior year's audit:

- The Accounting Policies and Procedures need to be updated to reflect the operations of the Partnership, particularly in the areas of cash receipts, cash disbursements, and competitive bidding.
- The Partnership lacked proper segregation of duties over the cash receipts and journal entry processes. The contract accountant was involved in all three phases - authorizing, processing, and recording - of these transactions.
- Evidence to support the authorization and processing of transactions was not adequately documented.

*These issues have been resolved.* However, due to the timing of last year's audit, these weaknesses affected a significant portion of the current year's operation and are therefore repeated.

### 2. CONTRACT MANAGEMENT AND MONITORING

During the audit of the Buncombe Partnership, we assessed the status of the following weaknesses in the Partnership's contract management and monitoring system that were identified in last year's audit:

- A written contract or grant agreement did not exist between the Partnership and one of its subcontractors.
- Payments to direct service providers were not made in accordance with the terms of the contracts.
- Documentation of monitoring activity was limited and failed to identify programmatic results.
- Audit adjustments totaling \$313,172 were required to correct misclassifications related to contract and grant activity.

*These issues have been resolved.* However, due to the timing of last year's audit, these weaknesses affected a significant portion of the current year's operation and are therefore repeated.

## **DISTRIBUTION OF AUDIT REPORT**

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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. Robert L. Powell	State Controller
Ms. Carmen Hooker Odom	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.

### **LEGISLATIVE BRANCH**

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Senator Aaron W. Plyler	Representative R. Phillip Haire
Senator Charlie Albertson	Senator Eric M. Reeves	Representative Dewey L. Hill
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Representative Philip A. Baddour, Jr.	Majority Leader of the N.C. House of Representatives
Senator Anthony E. Rand	Majority Leader of the N.C. Senate
Senator Patrick J. Ballantine	Minority Leader of the N.C. Senate
Representative N. Leo Daughtry	Minority Leader of the N.C. House of Representatives
Representative Joe Hackney	N. C. House Speaker Pro-Tem
Mr. James D. Johnson	Director, Fiscal Research Division

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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