



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

STOKES PARTNERSHIP FOR CHILDREN

KING, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

STOKES PARTNERSHIP FOR CHILDREN

KING, NORTH CAROLINA

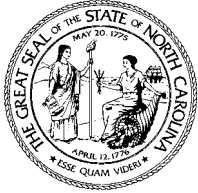
FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

JOAN SHERIF, CHAIRMAN

ADMINISTRATIVE OFFICER

R. GALE CRUISE, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Stokes Partnership for Children (Stokes Partnership) for the year ended June 30, 2001. Our audit was made by authority of Article 5A of G.S. §147.

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

The audit of the Stokes 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 Stokes Partnership is one of these local partnerships. As such, the Stokes 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 statements. A summary of our reporting objectives and audit results are:

1. **Objective** - Express an opinion on the accompanying financial statements and supplementary information.

Results – The accompanying financial statements present 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. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

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*.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Stokes 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

Contract Management and Monitoring

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.

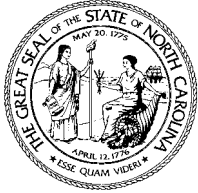
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S 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	11
2 Schedule of State Level Service Provider Contracts	12
3 Schedule of Federal and State Awards - Regulatory Basis.....	13
4 Schedule of Property and Equipment.....	14
5 Schedule of Qualifying Match (Non GAAP)	15
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 <i>GOVERNMENT AUDITING</i> <i>STANDARDS</i>	17
AUDIT FINDINGS AND RECOMMENDATIONS	19
DISTRIBUTION OF AUDIT REPORT	20



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Stokes Partnership for Children
King, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Stokes Partnership for Children (Stokes 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 Stokes 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 generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Stokes Partnership for Children 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2001 on our consideration of the Stokes 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

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Government Auditing Standards and should be read in conjunction with the independent auditor's 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 Stokes Partnership for Children 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.

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

Ralph Campbell, Jr.
State Auditor

November 30, 2001

Stokes Partnership for Children**Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis****For the Year Ended June 30, 2001****Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
Receipts:				
State Awards (less refunds of \$161,503)	\$ 941,126	\$ 39,790	\$ 0	\$ 980,916
Federal Awards		197,805		197,805
Private Contributions		23,427	17,916	41,343
Interest and Investment Earnings		2,550		2,550
Sales Tax Refunds		4,696		4,696
Other Receipts		39,264		39,264
Total Receipts	941,126	307,532	17,916	1,266,574
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		3,346	(3,346)	
	941,126	310,878	14,570	1,266,574
Expenditures:				
Programs:				
Child Care and Education Quality	395,255	214,672		609,927
Child Care and Education Accessibility and Availability	148,881			148,881
Child Care and Education Affordability	43,283			43,283
Health and Safety	105,148	804		105,952
Family Support	175,666	15,165		190,831
Support:				
Management and General	141,579	53,808		195,387
Program Evaluation	58,518	9,881		68,399
Fund Raising		19,061		19,061
Other:				
Sales Tax Paid		2,520		2,520
Total Expenditures	1,068,330	315,911		1,384,241
Excess of Receipts Over Expenditures	(127,204)	(5,033)	14,570	(117,667)
Net Assets at Beginning of Year	161,060	5,762	3,346	170,168
Net Assets at End of Year	<u>\$ 33,856</u>	<u>\$ 729</u>	<u>\$ 17,916</u>	<u>\$ 52,501</u>
Net Assets Consisted of:				
Cash on Deposit	\$ 28,829	\$ 729	\$ 17,916	\$ 47,474
Refunds Due From Contractors	5,027			5,027
	<u>\$ 33,856</u>	<u>\$ 729</u>	<u>\$ 17,916</u>	<u>\$ 52,501</u>

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

Stokes Partnership for Children
Schedule of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2001

Exhibit B

	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	395,255	66,067	17,435	15,282	16,729	4,568	5,620	269,554	
Child Care and Education Accessibility and Availability	148,881	3,979	350	2,953	3,906			137,693	
Child Care and Education Affordability	43,283			250		200		42,833	
Health and Safety	105,148		2,418	300			2,367	99,500	563
Family Support	175,666	34,046	2,724	6,302	12,904	1,802	2,568	115,320	
	868,233	104,092	22,927	25,087	33,539	6,570	10,555	664,900	563
Support:									
Management and General	141,579	108,527	6,169	6,301	14,383	5,557	642		
Program Evaluation	58,518	47,927	50	1,851	6,555	1,622	513		
	200,097	156,454	6,219	8,152	20,938	7,179	1,155	0	0
Total Smart Start Fund Expenditures	1,068,330	260,546	29,146	33,239	54,477	13,749	11,710	664,900	563
Other Funds:									
Programs:									
Child Care and Education Quality	214,672	204,048	1,080	474	7,301	822		947	
Health and Safety	804			164	640				
Family Support	15,165	4,744	4,680	2,292	2,474			975	
	230,641	208,792	5,760	2,930	10,415	822	0	1,922	0
Support:									
Management and General	53,808	32,199	5	2,459	7,195	1,175	3,275	7,500	
Program Evaluation	9,881	8,067		2	1,712	100			
Fund Raising	19,061	6,518	10,072	86	2,033	352			
	82,750	46,784	10,077	2,547	10,940	1,627	3,275	7,500	0
Other:									
Sales Tax Paid	2,520	0	0	2,520	0	0	0	0	0
Total Other Funds Expenditures	315,911	255,576	15,837	7,997	21,355	2,449	3,275	9,422	0

STOKES PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2001

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Stokes Partnership for Children (Stokes Partnership) is a legally separate nonprofit organization incorporated on August 25, 1994. The Stokes Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Stokes 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 Stokes 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.

Contributions that are temporarily restricted and not expended within the year received are reported as an increase in temporarily restricted net assets. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of receipts, expenditures, and net assets as net assets released from restrictions.

The Stokes Partnership did not have any 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 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 STATEMENTS (CONTINUED)

However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets.

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.

E. Use of Estimates - The financial statements include estimates and assumptions made by management for the allocation of joint costs. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

All funds of the Stokes Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the Stokes Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Stokes 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 Stokes 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 Stokes Partnership was awarded and has received \$1,102,629 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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

\$43,140 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.

The Stokes Partnership also received a grant from the Corporation for National and Community Service for the AmeriCorps program. The grant award is on a cost-reimbursement basis and is not to exceed \$280,783. As of June 30, 2001, the Stokes Partnership has received \$197,805.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Stokes Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Stokes 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 and the methods utilized to allocate joint cost:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including early education enhancement programs, child care resource and referral, professional development, salary supplements, NC Child Care Corps, resources and materials, health and safety intervention in child care, and environmental assessment.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Child Care and Education Affordability - Used to account for service activities associated with expanding child care eligibility.

Health and Safety - Used to account for service activities including comprehensive screenings and prenatal/newborn services.

Family Support - Used to account for service activities including ongoing parent education, general family support, special needs – family support, Motherread, information and resources, and school readiness.

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.

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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

Other Costs - Other costs including occupancy cost (rent, utilities and maintenance), supplies and materials, and communication costs (telephone and printing) were allocated based on utilization data.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 2001:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2002	\$ 20,611
2003	21,411
2004	21,411
2005	3,261
2006	1,611
Total Minimum Lease Payments	\$ 68,305

Total rental expenditure for all operating leases was \$14,997 for the year ended June 30, 2001.

NOTE 7 - PENSION PLAN

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 Stokes Partnership contributed \$7,363 for pension benefits during the year. The voluntary contributions by employees amounted to \$4,311 during the year ended June 30, 2001.

NOTE 8 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2001 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
Festival of Trees	\$ 268
RJR Early Childhood Initiative	7,500
RJR Kindergarten Readiness	10,148
	<u>\$ 17,916</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

- B. Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2001, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
March of Dimes	\$ 539
RJR Technical Assistance	2,807
	<u>\$ 3,346</u>

Stokes Partnership for Children
Schedule of Contract and Grant Expenditures - Regulatory Basis
For the Year Ended June 30, 2001

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Country Adventure Daycare	14,500			
Forsyth Technical Community College	40,112			
Generic Solutions	47,660	(1,161)		
Germanton Christian Child Care	9,000			
Happy Hills Day Care	6,576			
Harvest Temple	6,900			
King First Baptist Child Care	2,500			
King Moravian Preschool	13,081			
New Life Center	24,500			
Northwest Child Development (King Child Development)	29,745			
Northwest Piedmont Council of Government			7,500	
Northwestern Regional Library (Stokes County Libraries)	* 27,500	(515)		
PACES (CenterPoint Human Services)	* 10,467	(110)		
Sandy's Playschool	* 13,500			
SCAN	90,000			
Stokes County Arts Council	9,413			
Stokes County Department of Social Services	*		947	
Stokes County Schools	* 133,200	(241)		
Stokes Family Health	* 99,500			
Winston-Salem Symphony	7,407			
Yadkin Valley Economic Development District, Inc.	* 5,000			
	590,561	(2,027)	8,447	0
Individuals:				
Scholarships/Bonus Awards	79,366	(3,000)	975	0
	669,927	(5,027)	9,422	0

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

Stokes Partnership for Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2001

Schedule 2

Organization Name		DHHS Contracts
Stokes County Department of Social Services	*	242,073
*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.		

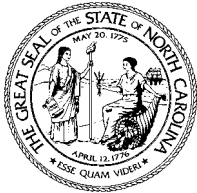
Stokes Partnership for Children**Schedule of Federal and State Awards - Regulatory Basis****For the Year Ended June 30, 2001****Schedule 3**

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
Corporation for National and Community Service				
Pass-through from the North Carolina Commission on Volunteerism and Community Service				
Americorps and Children Together (ACT) (Prior Year)	94.006	94ASCNC0342	\$ 2,517	\$ 0
Americorps and Children Together (ACT) (Current Year)	94.006	00ASFNN0342501	195,288	212,914
Total Federal Awards			197,805	212,914
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)		1-90-3-07-001	(161,503)	
Early Childhood Initiatives Program (Current Year)	*	1-01-3-07-001	1,102,629	1,068,330
Multi-Partnership Accounting and Contracting Grant			12,000	12,000
Office of the Governor-North Carolina Commission on Volunteerism and Community Service		N/A	7,500	7,500
North Carolina Department of Health and Human Services				
Division of Public Health				
Women's and Children's Health Section				
Pass-through from The University of North Carolina at Chapel Hill				
Parent Involvement in Child Service Coordination (Prior Year)		05301001	430	(480)
Parent Involvement in Child Service Coordination (Current Year)		15301003	2,150	4,300
The University of North Carolina at Chapel Hill		2-42951	2,800	2,224
Total State Awards			966,006	1,093,874
Total Federal and State Awards			\$ 1,163,811	\$ 1,306,788
*Programs with compliance requirements that have a direct and material effect on the financial statement.				

<i>Stokes Partnership for Children</i>			
<i>Schedule of Property and Equipment</i>			
<i>For the Year Ended June 30, 2001</i>			<i>Schedule 4</i>
	Furniture and Non-Computer Equipment	\$	12,445
	Computer Equipment/Printers		30,568
	Total Property and Equipment	\$	43,013
	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.		

Stokes Partnership for Children				
Schedule of Qualifying Match (Non-GAAP)				
For the Year Ended June 30, 2001				Schedule 5
Match Provided at the Partnership Level:				
Cash		\$	41,334	
In-Kind Goods and Services			6,406	
		\$	47,740	
Match Provided at the Contractor Level:				
Cash		\$	62,437	
In-Kind Goods and Services			35,720	
		\$	98,157	
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 generally accepted accounting principles.			

[This Page Left Blank Intentionally]



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

**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
Stokes Partnership for Children
King, North Carolina

We have audited the financial statements of the Stokes Partnership for Children (Stokes Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated November 30, 2001. 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 Stokes 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 Stokes 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 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 that,

**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)**

in our judgment, could adversely affect the Stokes Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition noted as a result of our audit is described in the Audit Findings and Recommendations section of this report:

Finding

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 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

November 30, 2001

AUDIT FINDINGS AND RECOMMENDATIONS

Current Year Finding and Recommendation - The following finding and recommendation was identified during the current audit and represents a significant deficiency in internal control.

CONTRACT MANAGEMENT AND MONITORING

The Stokes Partnership did not have an adequate contract management and monitoring system in place. In addition, we identified deficiencies in two partnership activities that resulted in ineligible payments to participants. Those activities are more fully discussed below. Items noted during our review included:

- Written policies and procedures were not in place to address contract management and monitoring.
- Evidence to support the monitoring of contract activities was limited or not available.
- The partnership funded two activities designed to provide salary bonus payments to day care providers – salary supplements and longevity awards. Applicants for both programs were subject to partnership established eligibility criteria. Participants in the longevity awards program must have first met the eligibility criteria defined for the salary supplements program. Our review of the salary supplements program identified payments to providers that did not meet the established eligibility requirements. Exceptions were noted with applicants' failure to meet minimum education requirements, minimum employment requirements in the childhood education field, and/or the minimum 20-hour requirement for working with children ages birth to 5. Of the 26 salary supplements transactions tested, we noted 15 errors in the determination of participant eligibility. Total payments to ineligible participants were \$9,588. An additional \$3,500 was paid to these same ineligible participants for longevity awards. Therefore, total questioned costs identified from our review of these two activities were \$13,088.

The achievement of the Stokes Partnership's goals is dependent on the effectiveness of its contract management system and its monitoring of contractor performance.

Recommendation: We recommend that the Stokes Partnership develop and implement contract management and monitoring policies and procedures. The procedures should address the performance and documentation of site visits, verification of eligibility requirements, and monitoring to ensure that expected outcomes are achieved. In addition, we recommend that the Stokes Partnership seek appropriate guidance from its funding agency, the North Carolina Partnership for Children, Inc., for the resolution of the above-identified questioned costs.

Partnership's Response:

- Written policies and procedures were not in place to address contract management and monitoring.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Although unwritten policies and procedures were in place, per our contracting agreements, no formal written policies and procedures had been adopted by the Board of Directors. Written policies and procedures for contracting and monitoring have now been developed and are currently under review by the Stokes Partnership for Children's Contract Management Policies and Procedures Committee. After they have been reviewed, the committee will pass them to the full Board of Directors for adoption and implementation. The North Carolina Partnership for Children's Contracting Policies and Procedures were used as a guideline for these policies and we feel this item is no longer an issue.

- Evidence to support the monitoring of contract activities was limited or not available.

A folder is currently being maintained for each contractor and activity. Each folder has the proposal submitted, the contract, financial status reports, and a section for reporting. A conscious effort has been made by all partnership staff to document all contact with our contractors whether it is by phone, mail, e-mail or actual site visit. In-house activities as well as contracts will be monitored fiscally and programmatically during the year and proper documentation included in the contract/activity folder.

- Questioned cost for the salary supplement program and longevity program.

The fiscal year 2000/2001 is the first time that the Salary Supplement project was run by CCR&R as in-house program. Longevity, which is based on the salary supplement plus years of service, has always been done in-house. There was CCR&R staff turnover and the eligibility requirements were not clearly defined (no policies and procedures existed) and not strictly adhered to. For 2001/2002 they continue as in-house programs, the criteria for eligibility has been strengthened for the salary supplement program and all documentation submitted to the Partnership is scrutinized for correctness and verified before pay out is being made. We have also changed the time frame for payouts from two payouts to one payout for each individual. This change will allow participants to obtain proper documentation of their completion courses and complete all requirements prior to payment. We feel that the actions we have taken will ensure that no payments will be made to anyone that is not eligible to receive them. Please see attached copy of the Policies and Procedures for this program.

Auditor's Comment:

The Stokes Partnership has requested assistance from the North Carolina Partnership for Children, Inc. in resolving questioned costs identified for the Salary Supplement and Longevity Programs.

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. 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.
	Executive Director
	North Carolina Partnership for Children, Inc.
Ms. Karen Ponder	

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman	Representative James B. Black, Co-Chairman
Senator Charlie Albertson	Representative Martha B. Alexander
Senator Frank W. Ballance, Jr.	Representative Flossie Boyd-McIntyre
Senator Charles Carter	Representative E. Nelson Cole
Senator Daniel G. Clodfelter	Representative James W. Crawford, Jr.
Senator Walter H. Dalton	Representative William T. Culpepper, III
Senator James Forrester	Representative W. Pete Cunningham
Senator Linda Garrou	Representative Beverly M. Earle
Senator Wilbur P. Gulley	Representative Ruth M. Easterling
Senator Kay R. Hagan	Representative Stanley H. Fox
Senator David W. Hoyle	Representative R. Phillip Haire
Senator Luther H. Jordan, Jr.	Representative Dewey L. Hill
Senator Ellie Kinnaird	Representative Mary L. Jarrell
Senator Howard N. Lee	Representative Maggie Jeffus
Senator Jeanne H. Lucas	Representative Larry T. Justus
Senator R. L. Martin	Representative Edd Nye
Senator William N. Martin	Representative Warren C. Oldham
Senator Stephen M. Metcalf	Representative William C. Owens, Jr.
Senator Fountain Odom	Representative E. David Redwine
Senator Aaron W. Plyler	Representative R. Eugene Rogers
Senator Eric M. Reeves	Representative Drew P. Saunders
Senator Dan Robinson	Representative Wilma M. Sherrill
Senator Larry Shaw	Representative Ronald L. Smith
Senator Robert G. Shaw	Representative Joe P. Tolson
Senator R. C. Soles, Jr.	Representative Gregg Thompson
Senator Ed N. Warren	Representative Russell E. Tucker
Senator David F. Weinstein	Representative Thomas E. Wright
Senator Allen H. Wellons	Representative Douglas Y. Yongue

DISTRIBUTION OF AUDIT REPORT (CONCLUDED)

Other Legislative Officials

Representative Philip A. Baddour, Jr.
Senator Anthony E. Rand
Senator Patrick J. Ballantine
Representative N. Leo Daughtry
Representative Joe Hackney
Mr. James D. Johnson

Majority Leader of the N.C. House of Representatives
Majority Leader of the N.C. Senate
Minority Leader of the N.C. Senate
Minority Leader of the N.C. House of Representatives
N. C. House Speaker Pro-Tem
Director, Fiscal Research Division

March 18, 2002

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647