



# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**DAVIE COUNTY PARTNERSHIP FOR CHILDREN, INC.**  
**MOCKSVILLE, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2001**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

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

**MOCKSVILLE, NORTH CAROLINA**

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

**BOARD OF DIRECTORS**

**PERCE MUSSELMAN, CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**PEGGY D. NUCKOLLS, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

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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, Davie County Partnership for Children, Inc.

This report presents the results of our financial statement audit of the Davie County Partnership for Children, Inc. (Davie 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 Davie 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 Davie 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 Davie Partnership is one of these local partnerships. As such, the Davie 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)

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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 Davie Partnership's ability to record, process, summarize, and report financial data in the financial statement.

**Results** - The following significant deficiencies were detected in internal control over financial reporting:

### **Finding**

1. Contract Management and Monitoring
2. Financial Presentations
3. Policies and Procedures

These matters are 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**

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Board of Directors  
Davie County Partnership for Children, Inc.  
Mocksville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Davie County Partnership for Children, Inc. (Davie 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 Davie 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 Davie 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2001 on our consideration of the Davie Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations,

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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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.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Davie County Partnership for Children, 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 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.



Ralph Campbell, Jr.  
State Auditor

September 28, 2001

**Davie 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		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$27,029)	\$ 357,801	\$ 12,000	\$ 0	\$ 369,801
Private Contributions		62,600		62,600
Sales Tax Refunds		205		205
Other Receipts		12,735		12,735
<b>Total Receipts</b>	<b>357,801</b>	<b>87,540</b>		<b>445,341</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		6,392	(6,392)	
	357,801	93,932	(6,392)	445,341
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	143,930	48,891		192,821
Child Care and Education Accessibility and Availability		485		485
Child Care and Education Affordability	63,159			63,159
Health and Safety	45,352	5,271		50,623
Family Support	12,500	3,648		16,148
Support:				
Management and General	106,039	24,250		130,289
Other:				
Sales Tax Paid		1,164		1,164
<b>Total Expenditures</b>	<b>370,980</b>	<b>83,709</b>		<b>454,689</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(13,179)</b>	<b>10,223</b>	<b>(6,392)</b>	<b>(9,348)</b>
<b>Net Assets at Beginning of Year</b>	<b>27,274</b>	<b>(175)</b>	<b>6,392</b>	<b>33,491</b>
<b>Net Assets at End of Year</b>	<b>\$ 14,095</b>	<b>\$ 10,048</b>	<b>\$ 0</b>	<b>\$ 24,143</b>
<b>Net Assets Consisted of:</b>				
Cash on Deposit	\$ 2,657	\$ 10,048	\$ 0	\$ 12,705
Refunds Due From Contractors	11,438			11,438
	\$ 14,095	\$ 10,048	\$ 0	\$ 24,143

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



**Statement 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
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	143,930							143,930	
Child Care and Education Affordability	63,159							63,159	
Health and Safety	45,352							45,352	
Family Support	12,500							12,500	
	264,941	0	0	0	0	0	0	264,941	0
<b>Support:</b>									
Management and General	106,039	56,297	22,070	12,367	6,909	1,443	6,953	0	0
<b>Total Smart Start Fund Expenditures</b>	<b>370,980</b>	<b>56,297</b>	<b>22,070</b>	<b>12,367</b>	<b>6,909</b>	<b>1,443</b>	<b>6,953</b>	<b>264,941</b>	<b>0</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	48,891			8,308		91	5,492	35,000	
Child Care and Education Accessibility and Availability	485			331		154			
Health and Safety	5,271							5,271	
Family Support	3,648			2,874	774				
	58,295	0	0	11,513	774	245	5,492	40,271	0
<b>Support:</b>									
Management and General	24,250	0	12,000	0	12,250	0	0	0	0
<b>Other:</b>									
Sales Tax Paid	1,164	0	0	1,164	0	0	0	0	0
<b>Total Other Funds Expenditures</b>	<b>83,709</b>	<b>0</b>	<b>12,000</b>	<b>12,677</b>	<b>13,024</b>	<b>245</b>	<b>5,492</b>	<b>40,271</b>	<b>0</b>

**DAVIE 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 Davie County Partnership for Children, Inc. (Davie Partnership) is a legally separate nonprofit organization incorporated on November 24, 1997. The Davie Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Davie 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 Davie 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 Davie 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 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)

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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.

### NOTE 2 - DEPOSITS

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

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Davie 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 Davie 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 Davie Partnership was awarded and has received \$384,830 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 \$13,923 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2001.

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

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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**

- A. Service Provider Contracts with Board Member Organizations** - The board members of the Davie Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Davie 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.
- B. Other Related Parties** - The Davie Partnership contracted for personnel services with a private business associated with a board member. The amount paid was:

<u>Expenditures</u>	<u>Amount</u>
Gantt Personnel, Inc.	<u>\$ 20,863</u>

**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 associated with quality enhancement grants, child care provider support and resources and materials.

**Child Care and Education Affordability** - Used to account for service activities associated with kindergarten orientation program and comprehensive child care cost supports.

**Health and Safety** - Used to account for service activities associated with comprehensive screenings, prenatal/newborn services, outreach nurses, and outreach materials.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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**Family Support** - Used to account for service activities associated with literacy projects, outreach materials and information and resources.

### **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.

### **NOTE 6 - PENSION PLAN**

The Davie Partnership did not have a pension plan in place for its employees. However, each employee of the Davie Partnership is provided, as part of the benefit package, an additional 5% of his/her salary to be applied to an individual retirement plan. The Partnership has no liability for any other cost other than the required percentage.

### **NOTE 7 - RESTRICTIONS ON NET ASSETS**

**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:

<u>Purpose</u>	<u>Amount</u>
RJ Reynolds Grant – Lending Library	<u>\$ 6,392</u>

*Davie County Partnership for Children, Inc.*  
*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
Davie County Department of Social Services	1,551			
Davie County Foundation, Inc.			35,000	
Davie County Health Department	47,117	(1,765)	5,271	
Davie County Public Library	12,500			
Davie County Schools	114,888	(2,417)		
Northwest Child Development Council, Inc.	100,323	(7,256)		
	<b>276,379</b>	<b>(11,438)</b>	<b>40,271</b>	<b>0</b>

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

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

***Schedule 2***

Organization Name	DHHS Contracts
Child Care Services Association - Wages	16,184
Davie County Department of Social Services - Subsidized Care	179,649
	<b>195,833</b>
<p>*These organizations are represented on the Partnership's Board as described in Note 4A - Service Provider Contracts with Board Member Organizations.</p>	
<p>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.</p>	



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

*Schedule 3*

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
<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)	#1-90-5-10-001	\$ (27,029)	\$ 0
Early Childhood Initiatives Program (Current Year)	* # 1-01-5-10-001	384,830	370,980
Multi-County Accounting and Contracting Grant (Current Year)	N/A	12,000	12,000
<b>Total State Awards</b>		<b>\$ 369,801</b>	<b>\$ 382,980</b>
*Programs with compliance requirements that have a direct and material effect on the financial statement.			

*Davie County Partnership for Children, Inc.*

*Schedule of Property and Equipment*

*For the Year Ended June 30, 2001*

*Schedule 4*

	Furniture and Non-Computer Equipment	\$	16,728
	Computer Equipment/Printers		6,961
	Leasehold Improvements		17,500
	<b>Total Property and Equipment</b>	<b>\$</b>	<b>41,189</b>
	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.	

***Davie 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:***

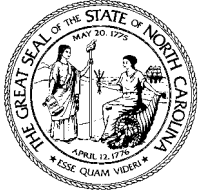
Cash	\$ 55,025
In-Kind Goods and Services	16,205
	<u>\$ 71,230</u>

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

Cash	\$ 61,623
In-Kind Goods and Services	6,340
	<u>\$ 67,963</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 generally accepted accounting principles.

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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**

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Board of Directors  
Davie County Partnership for Children, Inc.  
Mocksville, North Carolina

We have audited the financial statements of the Davie County Partnership for Children, Inc. (Davie Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated September 28, 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 Davie 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 Davie 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 certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies 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)**

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in our judgment, could adversely affect the Davie 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:

**Finding**

1. Contract Management and Monitoring
2. Financial Presentations
3. Policies and Procedures

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, of the reportable conditions described above, we consider the following to be material weaknesses:

1. Contract Management and Monitoring
2. Financial Presentations

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

September 28, 2001

## AUDIT FINDINGS AND RECOMMENDATIONS

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*Current Year Findings and Recommendations Also Reported in Prior Audit* - The following finding and recommendation was identified during the current and prior audit and represents significant deficiency in internal control.

### 1. CONTRACT MANAGEMENT AND MONITORING

We reported in the prior year audit that the Davie County Partnership did not have an adequate contract management and monitoring system. The Partnership did not have written agreements to support grants and that there were no written policies and procedures in place to address contract management. In addition, we found little evidence to support the monitoring of contract activities.

*This finding is unresolved.* The Davie Partnership has not corrected the items indicated above. We identified the following errors during our testwork:

- Written policies and procedures were not enacted for contract management and monitoring.
- Grant payments in excess of \$40,000 were made without written grant agreements.
- Documented site visits were limited in scope and not available for review for two contracts.

*Recommendation:* We recommend that the Davie Partnership develop written contract management and monitoring policies and procedures. Written agreements should support all contract and grant activities. Documented site visits of the programmatic and fiscal results provide monitoring results and ensure accountability and planned results are achieved.

*Partnership's Response:* Prior to Fiscal Year 2001-2002, Davie County Partnership for Children has conducted informal monitoring for all Direct Service Providers. This has been noted in each contract folder, however, we are now in the process of adopting contract management and monitoring policies. Documentation for programmatic and fiscal results from the current fiscal year are being documented in a more formal manner until the policy is adopted.

*Other Current Year Findings and Recommendations* - The following findings and recommendations were identified during the current audit and represent significant deficiencies in internal control.

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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### 2. FINANCIAL PRESENTATIONS

The financial presentations of the Davie Partnership were materially misstated resulting in numerous audit adjustments.

- The trial balance information presented for audit by the Davie Partnership required audit adjustments in excess of \$125,000.
- Errors were noted with both the functional and natural classification for expenses.

*Recommendation:* We recommend that the Partnership establish and implement proper procedures for the classification and review of transactions to ensure that activities and grants as well as other expenses are recorded correctly in the general ledger.

*Partnership's Response:* Fiscal Year 2000-2001 was a transition year from NCPC accounting to a MAC Site accounting. Since Davie County Partnership for Children has limited staff, we were relying on our MAC Site to lead us in proper coding and classifications. Our staff are now better trained and aware of coding expectations, classifications, and proper transactions for our accounting procedures.

### 3. POLICIES AND PROCEDURES

We found that the Davie Partnership's financial accounting policies and procedures were not current and did not sufficiently address the organization's needs. The policies refer to the accrual basis of accounting rather than the cash basis of accounting by which the Partnership operates. In addition, inadequacies of the current policies and procedures contributed to processing errors in the receipting and disbursement functions as well as the documentation of journal entries.

Written policies and procedures provide the direction to ensure assets are safeguarded, that accounting data is accurate and reliable, and that operational efficiencies and adherence to managerial policies are promoted.

*Recommendation:* We recommend that the Davie Partnership obtain guidance from the North Carolina Partnership in updating and implementing effective accounting policies and procedures.

*Partnership's Response:* The Partnership will obtain guidance from NCPC in updating our policies and procedures before the end of Fiscal Year 2001-2002.



## **DISTRIBUTION OF AUDIT REPORT**

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February 15, 2002

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