



# STATE OF NORTH CAROLINA

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**WAYNE COUNTY PARTNERSHIP FOR CHILDREN**  
**GOLDSBORO, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2001**

**OFFICE OF THE STATE AUDITOR**

**RALPH CAMPBELL, JR.**

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**WAYNE COUNTY PARTNERSHIP FOR CHILDREN**

**GOLDSBORO, NORTH CAROLINA**

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

**BOARD OF DIRECTORS**

**HOWARD SCOTT, CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**DR. ANN B. STEPHENS, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the 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, Wayne County Partnership for Children

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

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	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 State Awards - Regulatory Basis .....	13
4 Schedule of Property and Equipment.....	14
5 Schedule of Qualifying Match .....	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 STANDARDS</i> .....	17
AUDIT FINDING AND RECOMMENDATION .....	19
DISTRIBUTION OF AUDIT REPORT .....	21



Ralph Campbell, Jr.  
State Auditor

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## INDEPENDENT AUDITOR'S REPORT

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Board of Directors  
Wayne County Partnership for Children  
Goldsboro, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Wayne County Partnership for Children (Wayne 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 Wayne 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 Wayne County 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 March 22, 2002 on our consideration of the Wayne Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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Our audit was made for the purpose of forming an opinion on the basic financial statements of the Wayne County 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.



Ralph Campbell, Jr.  
State Auditor

March 22, 2002

**Wayne County 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		
<b>Receipts:</b>				
State Awards (less refunds of \$377,261)	\$ 2,106,972	\$ 11,589	\$ 0	\$ 2,118,561
Private Contributions		24,127	10,701	34,828
Special Fund Raising Events		750		750
Interest and Investment Earnings		16,224		16,224
Sales Tax Refunds	248	25,217		25,465
Other Receipts		661		661
<b>Total Receipts</b>	<b>2,107,220</b>	<b>78,568</b>	<b>10,701</b>	<b>2,196,489</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		60,827	(60,827)	0
	<b>2,107,220</b>	<b>139,395</b>	<b>(50,126)</b>	<b>2,196,489</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	1,344,827	90,115		1,434,942
Child Care and Education Accessibility and Availability	73,542			73,542
Child Care and Education Affordability	260,090			260,090
Health and Safety	292,757			292,757
Family Support	198,539			198,539
Support:				
Management and General	231,674	12,707		244,381
Program Coordination	65,882			65,882
Other:				
Sales Tax Paid		29,564		29,564
<b>Total Expenditures</b>	<b>2,467,311</b>	<b>132,386</b>	<b>0</b>	<b>2,599,697</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(360,091)</b>	<b>7,009</b>	<b>(50,126)</b>	<b>(403,208)</b>
<b>Net Assets at Beginning of Year</b>	<b>373,856</b>	<b>(3,770)</b>	<b>60,827</b>	<b>430,913</b>
<b>Net Assets at End of Year</b>	<b>\$ 13,765</b>	<b>\$ 3,239</b>	<b>\$ 10,701</b>	<b>\$ 27,705</b>
<b>Net Assets Consisted of:</b>				
Cash on Deposit	\$ 6,644	\$ 3,539	\$ 10,701	\$ 20,884
Refunds Due From Contractors	7,121			7,121
	13,765	3,539	10,701	28,005
Less: Funds Held for Others		300		300
	<b>\$ 13,765</b>	<b>\$ 3,239</b>	<b>\$ 10,701</b>	<b>\$ 27,705</b>

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



**Wayne County 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
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	1,344,827	148,995	8,714	6,960	17,662	14,119	486,456	656,448	5,473
Child Care and Education Accessibility and Availability	73,542							73,542	
Child Care and Education Affordability	260,090							260,090	
Health and Safety	292,757							292,757	
Family Support	198,539	18,399	281	467	5,061	433	2,543	171,355	
	<b>2,169,755</b>	<b>167,394</b>	<b>8,995</b>	<b>7,427</b>	<b>22,723</b>	<b>14,552</b>	<b>488,999</b>	<b>1,454,192</b>	<b>5,473</b>
<b>Support:</b>									
Management and General	231,674	134,903	13,886	10,061	20,312	14,041	38,471		
Program Coordination	65,882	56,386	751	1,307	4,767	1,978	693		
	<b>297,556</b>	<b>191,289</b>	<b>14,637</b>	<b>11,368</b>	<b>25,079</b>	<b>16,019</b>	<b>39,164</b>	<b>0</b>	<b>0</b>
<b>Total Smart Start Fund Expenditures</b>	<b>2,467,311</b>	<b>358,683</b>	<b>23,632</b>	<b>18,795</b>	<b>47,802</b>	<b>30,571</b>	<b>528,163</b>	<b>1,454,192</b>	<b>5,473</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	90,115	0	500	0	861	0	14,298	71,872	2,584
<b>Support:</b>									
Management and General	12,707	0	12,200	257	250	0	0	0	0
<b>Other:</b>									
Sales Tax Paid	29,564	0	0	29,564	0	0	0	0	0
<b>Total Other Funds Expenditures</b>	<b>132,386</b>	<b>0</b>	<b>12,700</b>	<b>29,821</b>	<b>1,111</b>	<b>0</b>	<b>14,298</b>	<b>71,872</b>	<b>2,584</b>

**WAYNE COUNTY PARTNERSHIP FOR CHILDREN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2001**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** - The Wayne County Partnership for Children (Wayne Partnership) is a legally, separate nonprofit organization incorporated on September 12, 1997. The Wayne Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Wayne 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 Wayne 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 Wayne 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 STATEMENT (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. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- 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. Funds Held For Others** - Funds held for others includes amounts received that are fiduciary in nature in which the Partnership acts in an agency capacity. For the year ended, the Wayne Partnership was holding a rental deposit for subleased office space.
- F. 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 Wayne 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 Wayne Partnership to a concentration of credit risk.

The Wayne Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's Repurchase Transactions securities and is not insured by the FDIC. Consequently, the Wayne Partnership bank deposits in excess of the FDIC insured limit totaled \$133,937 at June 30, 2001.

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

## NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

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Associated with these contracts, the Wayne 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 Wayne 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 are presented on Schedule 2 accompanying the financial statements.

The Wayne Partnership was awarded \$2,555,502 under current year Smart Start contracts with NCPC and has received \$2,483,822 of this amount. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$13,517 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.

### NOTE 4 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** - The board members of the Wayne Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Wayne 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:

## NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

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### A. Program Functions

**Child Care and Education Quality** - Used to account for service activities including quality enhancement grants, early education enhancement programs, child care resource and referral, child care provider support, health and safety intervention in child care, and information and resources.

**Child Care and Education Accessibility and Availability** - Used to account for service activities including inclusion support and to increase childcare spaces.

**Child Care and Education Affordability** - Used to account for service activities including Head Start wraparound and Head Start classrooms.

**Health and Safety** - Used to account for service activities including prenatal/newborn services and outreach nurses.

**Family Support** - Used to account for service activities including parenting education, ongoing parent education, community leadership, support services for children in crisis, literacy projects, information and resources, or outreach plans to assess services.

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

### 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

## NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

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(telephone and printing) were allocated based on estimates of utilization or utilization data.

## NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

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### NOTE 6 - COMMITMENTS AND CONTINGENCIES

- A. 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	\$ 14,712
2003	<u>8,112</u>
<b>Total Minimum Lease Payments</b>	<b>\$ <u>22,824</u></b>

Total rental expenditure for all operating leases was \$23,120 for the year ended June 30, 2001.

- B. Commitments on Contracts** - The Wayne Partnership had outstanding commitments of \$2,850 on cost-reimbursement contracts that had not been paid at June 30, 2001.

### NOTE 7 - PENSION PLAN

The Wayne Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Wayne Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Wayne Partnership contributed 5% of gross wages for the year ended June 30, 2001. The Wayne Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

For the year ended June 30, 2001, the Wayne Partnership had a total payroll of \$297,365, all of which was covered under the plan. The Partnership contributed \$14,801 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 Wayne Partnership. The voluntary contributions by employees amounted to \$16,985 during the year ended June 30, 2001.

**NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)**

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**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>
Quality Enhancement Provider Match	<u>\$ 10,701</u>

- 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:

<u>Purpose</u>	<u>Amount</u>
Quality Enhancement Provider Match	<u>\$ 60,827</u>



**Wayne County 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
Apple Dumpling	18,477			
Christian Care Academy I	19,249			
Creations Academy	17,619			
Dillard Building, Inc.	41,500			
First Acedemy	27,624			
Happy Days	22,059			
Kiddie Kampus	20,884			
Kids & Company	18,832			
Lighthouse of Wayne County, Inc.	4,485			
Mental Health Association in North Carolina, Inc.	11,584	(310)		
North Carolina Cooperative Extension, Wayne County Center	* 92,118			
Patricia Murray's Family Child Care Home	* 3,133			
Rhyme University	20,354			
Rosewood Day Car	22,174			
Science Museums of Wilson, Inc.	47,919			
Small World	* 23,528			
Sunrise Learning Center	24,262			
Tiny Tot Nursery	* 12,476			
Various Day Care Providers	322,714		71,872	
Wayne Action Group for Economic Solvency, (WAGES)	* 189,506	(1,418)		
Wayne Community College	* 8,300			
Wayne County Health Department	* 250,694	(581)		
Wayne County Public Library, Inc.	* 26,516			
Wayne County Public Schools	* 175,842			
Wayne Uplift Resource Association, Inc.	39,464	(4,812)		
	<b>1,461,313</b>	<b>(7,121)</b>	<b>71,872</b>	<b>0</b>

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

**Wayne County Partnership for Children  
 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 Program		111,130	
Wayne County Department of Social Services	*	1,452,772	
		1,563,902	
* 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.			

**Wayne County Partnership for Children**  
**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)	1-89-5-38-001	\$ (1,472)	\$ (538)
Early Childhood Initiatives Program (Prior Year)	* 1-90-5-34-001	(375,378)	(2,456)
Early Childhood Initiatives Program (Current Year)	* 1-01-5-34-001	2,270,418	2,256,901
Early Childhood Initiatives Program (Encumbrance)	1-01-5-34-001E	213,404	213,404
Multi-County Accounting and Contract Grant (Prior Year)	N/A	(411)	
Multi-County Accounting and Contract Grant (Current Year)	N/A	12,000	12,000
<b>Total State Awards</b>		<b>\$ 2,118,561</b>	<b>\$ 2,479,311</b>
* Programs with compliance requirements that have a direct and material effect on the financial statement.			

*Wayne County Partnership for Children*

*Schedule of Property and Equipment*

*For the Year Ended June 30, 2001*

*Schedule 4*

Furniture and Non-Computer Equipment		\$	23,509
Computer Equipment/Printers			39,277
Buildings			517,171
	Total Property and Equipment	\$	579,957

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.

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

**Schedule 5**

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

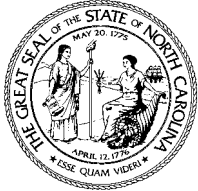
Cash	\$ 23,422
In-Kind Goods and Services	27,153
	<u>\$ 50,575</u>

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

Cash	\$ 503,004
In-Kind Goods and Services	292,241
	<u>\$ 795,245</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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Ralph Campbell, Jr.  
State Auditor

STATE OF NORTH CAROLINA

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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  
Wayne County Partnership for Children  
Goldsboro, North Carolina

We have audited the financial statements of the Wayne County Partnership for Children (Wayne Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated March 22, 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 Wayne 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 Wayne 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)**

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in our judgment, could adversely affect the Wayne 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 are described in the Audit Findings and Recommendations section of this report:

**Finding**

Contract Management/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

March 22, 2002



## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **Matters Related to Financial Reporting**

*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 a significant deficiency in internal control.

#### CONTRACT MANAGEMENT/MONITORING

The prior year audit report identified weaknesses in the Wayne Partnership's contract management/monitoring system including the lack of adequate documentation to support monitoring activities and the expenditure of funds prior to grantor authorization.

*This finding is partially resolved.* The Partnership made improvements in its contract management as we did not note any instances of disbursements prior to receiving authorization from the Partnership's funding source. However, we continued to note the following contract management/monitoring deficiencies:

- Payments were made outside the grant agreement period and/or without a grant agreement.
- Packing slips were not consistently maintained to support the receipt of goods purchased through the quality enhancement program.
- Quality Enhancement activities were not adequately tracked and identified to specific grant recipients within the accounting system.
- Documentation was insufficient to support monitoring activities.
- Purchase orders were incorrectly used as authorization for payment for Quality Enhancement activities.

*Recommendation:* We recommend that the Partnership make enhancements to its contract management/monitoring system as well as its cash disbursement system. The contract management/monitoring system should address executing formal contract documents that support the Partnership's contractual intentions, performing documented site visits, and ensuring that expected outcomes are achieved. The cash disbursement system should have separate processes for the prior approval of purchase activities and the payment for goods/services after their receipt.

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

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*Partnership's Response:* In response to the 2000-2001 audit finding, we offer the following response:

Payments were made outside the grant agreement period and/or without a grant agreement. *Because of extenuating circumstances, grant work could not be completed within the expected time frame. While contracts with North Carolina Partnership for Children were amended (funds encumbered in one case) as required, agreements with local child care facilities were not extended as needed. A process is in place to prohibit this from recurring in the future.*

Packing slips were not consistently maintained to support the receipt of goods purchased through the quality enhancement program. *Because purchased items were shipped directly to child care facilities, some packing slips were misplaced. In the future participating facilities will be required to provide packing slips to the partnership.*

Only enhancement activities were not adequately tracked and identified to specific grant recipients within the accounting system. *During the last round of grants the Partnership initiated a procedure for identifying child care facilities using the last two digits of the chart of accounts code. This process ensures that expenditures can be tracked and facilities identified.*

Documentation was insufficient to support monitoring activities. *Staff performing tasks related to documenting contacts with child care providers failed to document monitoring contacts. We have developed a supervisory oversight policy to ensure that this does not happen in the future.*

Purchase orders were incorrectly used as authorization for payment for Quality Enhancement activities. *After discussing an appropriate procedure with auditors, the Partnership has purchased a stamp and developed a procedure for the executive director to stamp and initial purchase orders to authorize payment in addition to authorizing purchases.*

## 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.

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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.

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Director, Fiscal Research Division

June 19, 2002

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