

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

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

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

YADKINVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2001

BOARD OF DIRECTORS

PATSY BROWN, CHAIRPERSON

ADMINISTRATIVE OFFICER

DWIGHT MORRIS, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA

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AUDITOR'S TRANSMITTAL

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

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

The audit of the Yadkin County Partnership for Children, Inc. was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-.16. This statute created the North Carolina Partnership for Children, Inc. and required the implementation of local partnerships. The Yadkin County Partnership for Children, Inc. is one of these local partnerships. As such, the Yadkin County Partnership for Children, Inc. is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14 to have an annual financial and compliance audit conducted by the State Auditor. The State Auditor's authority to perform or coordinate all audit functions for state government is set forth in Article 5 of Chapter 147 of the North Carolina General Statutes.

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

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

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

Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Yadkin County Partnership for Children, Inc.
Yadkinville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Yadkin County Partnership for Children, Inc. (Yadkin County 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 Yadkin County Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

INDEPENDENT AUDITORS' REPORT (CONCLUDED)

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2002 on our consideration of the Yadkin County 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.

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

May 23, 2002

Crisp Hughes Evans LLP

Yadkin 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		
Receipts:				
State Awards (less refunds of \$75,988)	\$ 651,921	\$ 12,000	\$ -	\$ 663,921
Private Contributions	-	18,150	7,500	25,650
Interest and Investment Earnings	-	562	-	562
Sales Tax Refunds	-	8,481	-	8,481
Other Receipts	991	156	-	1,147
Total Receipts	652,912	39,349	7,500	699,761
Net Assets Released from Restrictions:				
Expiration of Time Restrictions	-	629	(629)	-
Satisfaction of Program Restrictions	-	313	(313)	-
	652,912	40,291	6,558	699,761
Expenditures:				
Programs:				
Child Care and Education Quality	386,654	427	-	387,081
Child Care and Education Affordability	38,762	-	-	38,762
Health and Safety	85,055	-	-	85,055
Family Support	77,003	-	-	77,003
Support:				
Management and General	106,999	36,092	-	143,091
Program Evaluation	14,262	-	-	14,262
Other:				
Sales Tax Paid	-	11,831	-	11,831
Refund of Prior Year Grant	-	629	-	629
Total Expenditures	708,735	48,979	-	757,714
Excess of Receipts Over (Under) Expenditures	(55,823)	(8,688)	6,558	(57,953)
Net Assets at Beginning of Year	75,988	4,898	942	81,828
Net Assets at End of Year	\$ 20,165	\$ (3,790)	\$ 7,500	\$ 23,875
Net Assets Consisted of:				
Petty Cash	\$ -	\$ 250	\$ -	\$ 250
Cash on Deposit	6,362	(3,935)	7,500	9,927
Refunds Due From Contractors	14,059	-	-	14,059
	20,421	(3,685)	7,500	24,236
Less: Funds Held for Others	(256)	(105)	-	(361)
	\$ 20,165	\$ (3,790)	\$ 7,500	\$ 23,875

The accompanying notes are an integral part of these statements.

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

Exhibit B

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating	Fixed Charges and Other	Property and Equipment Outlay	Services/ Contracts/ Grants
Smart Start Fund:								
Programs:								
Child Care and Education Quality	\$386,654	\$100,782	\$ 9,977	\$ 14,667	\$ 8,020	\$ 17,233	\$ 4,066	\$ 231,909
Child Care and Education Affordability	38,762	-	-	-	-	-	-	38,762
Health and Safety	85,055	-	-	-	-	-	-	85,055
Family Support	77,003	-	-	-	-	-	-	77,003
Support:								
Management and General	106,999	68,709	3,096	8,477	10,536	9,559	6,622	-
Program Evaluation	14,262	12,109	-	56	207	-	1,890	-
Total Smart Start Fund Expenditures	\$708,735	\$181,600	\$ 13,073	\$ 23,200	\$ 18,763	\$ 26,792	\$ 12,578	\$ 432,729
Other Funds:								
Programs:								
Child Care and Education Quality	\$ 427	\$ -	\$ -	\$ 427	\$ -	\$ -	\$ -	\$ -
Support:								
Management and General	36,092	8,761	11,105	597	1,398	70	14,161	-
Other:								
Sales Tax Paid	11,831	-	-	11,831	-	-	-	-
Refund of Prior Year Grant	629	-	-	-	629	-	-	-
Total Other Funds Expenditures	\$ 48,979	\$ 8,761	\$ 11,105	\$ 12,855	\$ 2,027	\$ 70	\$ 14,161	\$ -

The accompanying notes are an integral part of these statements.

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Yadkin County Partnership for Children, Inc. (Yadkin County Partnership) is a legally separate nonprofit organization incorporated on February 16, 1994. The Yadkin County Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Yadkin County 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 Yadkin County 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 Yadkin County 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 accounting principles generally accepted in the United States of America, primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

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. Also, 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 Yadkin Partnership was holding amounts withheld from employee paychecks for distribution to taxing authorities.
- 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 Yadkin County Partnership are deposited with one commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subject the Yadkin County Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Associated with these contracts, the Yadkin County 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 Yadkin County Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Yadkin County Partnership was awarded and has received \$727,909 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 \$19,175 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 Yadkin County Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Yadkin County 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 STATEMENTS (CONTINUED)

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants, child care resource and referral, and salary supplements.

Child Care and Education Affordability - Used to account for service activities including child care coordinator, public preschool classes, and comprehensive child care cost supports.

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

Family Support - Used to account for service activities including parenting education, literacy projects, transportation services, and school readiness program.

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.

C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

Salaries and Benefits - Allocated based on estimated time spent by employees for each function supported by employee time reports.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 6 - COMMITMENTS AND CONTINGENCIES

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2002	\$ 23,844
2003	<u>2,984</u>
Total Minimum Lease Payments	<u>\$ 26,828</u>

Total rental expenditure for all operating leases was \$25,486 for the year ended June 30, 2001.

NOTE 7 - PENSION PLAN

IRC Section 403(b) - All permanent employees who are full-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 Yadkin County Partnership adds 10% of each employee's salary, which is contributed to the plan. The contributions amounted to \$15,354 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>
Parent Education Campaign	<u>\$ 7,500</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 or expiration of time restrictions, as follows:

Purpose	Amount
Child Care Health Activity	\$ 629
Community Links Center	313
	<u>\$ 942</u>

Yadkin 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
Courtney Preschool	* \$ 4,071	\$ -	\$ -	\$ -
Cultural Diversity Workshop	* 3,291	-	-	-
Fall Creek Preschool	* 3,431	-	-	-
Head Start	* 21,800	-	-	-
Kid's World Child Care	* 4,103	-	-	-
Little Darlings Child Care	* 5,852	-	-	-
Math/Numbers Workshop	* 11,933	-	-	-
Mother Hen	* 5,483	-	-	-
Nature/Science Workshop	* 21,206	-	-	-
Northwest Regional Library	* 43,900	(9,428)	-	-
Small Folks Child Care	* 8,039	-	-	-
Stokes Partnership for Children	1,500	-	-	-
Various Day Care Organizations	84,619	-	-	-
West Yadkin Preschool	* 4,357	-	-	-
Yadkin County Health Department	* 57,840	(4,543)	-	-
Yadkin County Schools	* 70,850	(88)	-	-
Yadkin SCAN	36,289	-	-	-
YVEDDI - Outreach Transportation	6,000	-	-	-
Individuals:				
Janet Nicholson - Salary Supplements	* 600	-	-	-
LeeSa Cornelius - Salary Supplements	* 350	-	-	-
LuAnn Doss - Salary Supplements	* 600	-	-	-
Ruth Matthews - Salary Supplements	* 1,500	-	-	-
Susan Collins - Salary Supplements	* 675	-	-	-
Una Adams - Salary Supplements	* 700	-	-	-
Vicki Summey - Salary Supplements	* 700	-	-	-
WAGE\$ - Other Salary Supplements	47,099	-	-	-
	\$ 446,788	\$ (14,059)	\$ -	\$ -

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

See Independent Auditors' Report.

***Yadkin 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
Yadkin County Department of Social Services	* \$ 246,528

* This organization is represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.

The information on this schedule provides a listing of service provider contracts entered into by the Department of Health and Human Services (DHHS) as described in Note 3 - Funding From Grant Awards.

See Independent Auditors' Report.

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

Schedule 3

<u>State Grantor/Pass-through Grantor/Program</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
State Awards:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	* 1-90-5-35-001	\$ (75,988)	\$ -
Early Childhood Initiatives Program (Current Year)	* 1-01-5-35-001	727,909	708,735
Multi-County Accounting and Contracting Grant	-	<u>12,000</u>	<u>11,439</u>
Total State Awards		<u>\$ 663,921</u>	<u>\$ 720,174</u>

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

See Independent Auditors' Report.

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

Schedule 4

Furniture and Non-Computer Equipment	\$	17,277
Computer Equipment/Printers		15,070
Leasehold Improvements		<u>46,290</u>
Total Property and Equipment	\$	<u><u>78,637</u></u>

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

See Independent Auditors' Report.

***Yadkin 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	\$	25,650
In-Kind Goods and Services		<u>36,030</u>
	\$	<u>61,680</u>

Match Provided at the Contractor Level:

Cash	\$	51,670
In-Kind Goods and Services		<u>3,649</u>
	\$	<u>55,319</u>

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

See Independent Auditors' Report.

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

Board of Directors
Yadkin County Partnership for Children, Inc.
Yadkinville, North Carolina

We have audited the financial statements of the Yadkin County Partnership for Children (Yadkin County Partnership) as of and for the year ended June 30, 2001, and have issued our report thereon dated May 23, 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 Yadkin County 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, which are reported in the Audit Findings and Recommendations section of this report, disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Finding

1. CONTRACTS MANAGEMENT

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

Internal Control Over Financial Reporting

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

Finding

2. INTERNAL CONTROL

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.

We also noted another matter involving an issue of a management control nature that is described in the Other Observations and Recommendations section of this report.

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.

May 23, 2002

Crisp Hughes Evans LLP

AUDIT FINDINGS AND RECOMMENDATIONS

Finding and Recommendation from the Current Audit - The following presents a finding, determined during the current audit, which represents significant deficiencies in internal controls. Also presented is a finding and recommendation regarding noncompliance with contracts.

1. CONTRACT MANAGEMENT

During our audit of the Yadkin Partnership, we identified the following noncompliance in the Partnership's contract management:

- The Partnership advanced \$63,473 to Direct Service Providers (DSP) without adequate documentation of expenditures incurred or expenditures anticipated on the DSPs Financial Status Reports (FSR).
- \$42,606 of the \$63,473 was advanced in June 2001 in order to advance the DSPs the remaining balance of their contracts.

In order to comply with contract agreements entered into with DSPs, the Yadkin Partnership may advance up to two months of the budgeted contract amount. However, the DSP must provide adequate documentation that those expenditures will be incurred and the request must be approved by the Partnership.

Recommendation: We recommend the Partnership not advance funds to DSPs without proper documentation of the expenditures incurred or anticipated.

Partnership's Response: The Yadkin County Partnership followed procedures as formally directed by NCPC for drawing down remaining funds for Direct Service Providers at the end of the year in order to have enough funds available to cover final expenditures during the last month of the year. This issue was addressed with revisions to our Policies and Procedures Manual during the 2001-2002 fiscal year. Direct Service Providers are now required to provide written requests to justify increased amounts to their monthly reimbursement requests. This policy will be maintained and monitored. To increase efficiency in monitoring this and other financial and contractual obligations, a monthly and yearly calendar/check list will be developed.

2. INTERNAL CONTROL

During our audit of the Yadkin Partnership, we identified the following weaknesses in the Partnership's internal control:

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

- The Partnership lacked proper segregation of duties over purchases. The same person performs the purchasing and receiving functions. In addition, the person who approves the purchase order often executes and receives the order.
- The Partnership lacked proper segregation of duties over cash receipts. The same person receives funds to be deposited, prepares the deposit slip and deposit code sheets, and submits the deposit information to the MAC site.

Weaknesses in internal control affect the Partnership's ability to properly account for its activities.

Recommendation: We recommend the Partnership review and modify all of its policies and procedures to segregate duties between authorizing, processing and recording of transactions.

Partnership's Response: This issue was addressed with revisions to our Accounting Policies and Procedures Manual during the 2001-2002 fiscal year. When an item is purchased by the purchase order preparer, the receipt of merchandise will be verified and initialed by another staff member other than the Executive Director.

Other Observations and Recommendations from the Current Audit - The following presents a management control issue related to the efficiency and effectiveness of operations and is not considered by us to be a reportable condition.

PAYROLL

During our audit, it came to our attention that the Partnership was not reconciling its quarterly payroll reports (Form 941) to salaries and wages recorded in the general ledger. The purpose of the reconciliation is to ensure that the gross wage and employer FICA totals reflected on the quarterly payroll report are in agreement with the applicable general ledger accounts.

Recommendation: The Partnership should reconcile salaries recorded in the general ledger to the quarterly payroll report each quarter.

Partnership's Response: It was the Partnership's understanding that the 941 was being reconciled by the MAC site. The Partnership has implemented a procedure for reconciling the Form 941 to salaries recorded in the general ledger on a quarterly basis.

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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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