



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

DAVIDSON COUNTY PARTNERSHIP FOR CHILDREN

LEXINGTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
DAVIDSON COUNTY PARTNERSHIP FOR CHILDREN
LEXINGTON, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

ROBERT LOPP, BOARD CHAIR

ADMINISTRATIVE OFFICER

ROGER BAILEY, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Davidson County Partnership for Children (Davidson Partnership) for the year ended June 30, 2002. Our audit was made by authority of Article 5A of Chapter 147 of the General Statutes.

The accounts and operations of the Davidson 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 Davidson Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 143B-168.10-.16. These statutes created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Davidson Partnership is one of these local partnerships. As such, the Davidson Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 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** – To express an opinion on the accompanying financial statements and supplementary information.

Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the regulatory basis of accounting established by the North Carolina Partnership for Children, Inc. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - Our tests disclosed no instances of noncompliance that require disclosure herein under *Government Auditing Standards*.

3. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Davidson Partnership's ability to record, process, summarize, and report financial data in the financial statements.

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

Finding

1. Control Environment
2. Financial Presentations
3. Contract Management and Monitoring

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.

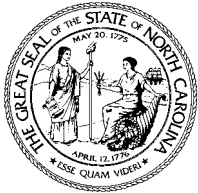
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Davidson County Partnership for Children
Lexington, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Davidson County Partnership for Children (Davidson Partnership) as of June 30, 2002, and the related Statement of Functional Expenditures - Regulatory Basis for the year then ended. These financial statements are the responsibility of the Davidson 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 statements are free of material misstatements. 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 Davidson County Partnership for Children as of June 30, 2002, 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 April 2, 2003 on our consideration of the Davidson 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)

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

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

Ralph Campbell, Jr.
State Auditor

April 2, 2003

Davidson County Partnership for Children**Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis****For the Year Ended June 30, 2002****Exhibit A**

| | Unrestricted Funds | | Temporarily Restricted Funds | Total Funds |
|---|-----------------------------|------------------------|---|------------------------|
| | Smart Start Fund | Other Funds | | |
| Receipts: | | | | |
| State Awards (less refunds of \$18,751) | \$ 2,593,375 | \$ 137,771 | \$ 0 | \$ 2,731,146 |
| Private Contributions | | 18,887 | 1,235 | 20,122 |
| Special Fund Raising Events | | 577 | | 577 |
| Interest and Investment Earnings | | 5,740 | | 5,740 |
| Sales Tax Refunds | | 7,996 | | 7,996 |
| Other Receipts | 15,255 | | | 15,255 |
| Total Receipts | 2,608,630 | 170,971 | 1,235 | 2,780,836 |
| Expenditures: | | | | |
| Programs: | | | | |
| Child Care and Education Quality | 1,238,394 | 15,394 | | 1,253,788 |
| Child Care and Education Affordability | 36,960 | | | 36,960 |
| Health and Safety | 148,746 | | | 148,746 |
| Family Support | 771,351 | 6,692 | | 778,043 |
| More at Four | | 126,036 | | 126,036 |
| Support: | | | | |
| Management and General | 322,954 | 8,708 | | 331,662 |
| Program Evaluation | 34,957 | | | 34,957 |
| Program Coordination | 35,194 | 1,689 | | 36,883 |
| Other: | | | | |
| Sales Tax Paid | | 1,536 | | 1,536 |
| Total Expenditures | 2,588,556 | 160,055 | | 2,748,611 |
| Excess of Receipts Over Expenditures | 20,074 | 10,916 | 1,235 | 32,225 |
| Net Assets at Beginning of Year | 18,478 | 45,345 | 155 | 63,978 |
| Net Assets at End of Year | \$ 38,552 | \$ 56,261 | \$ 1,390 | \$ 96,203 |
| Net Assets Consisted of: | | | | |
| Cash and Cash Equivalents | \$ 34,209 | \$ 56,261 | \$ 1,390 | \$ 91,860 |
| Refunds Due From Contractors | 4,375 | | | 4,375 |
| | 38,584 | 56,261 | 1,390 | 96,235 |
| Less: Funds Held for Others | 32 | | | 32 |
| | \$ 38,552 | \$ 56,261 | \$ 1,390 | \$ 96,203 |

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

Davidson County Partnership for Children
Schedule of Functional Expenditures - Regulatory Basis
For the Year Ended June 30, 2002

Exhibit B

| | Total | Personnel | Contracted Services | Supplies and Materials | Other Operating Expenditures | Fixed Charges and Other Expenditures | Property and Equipment Outlay | Services/ Contracts/ Grants | Participant Training Expenditures |
|--|---------------------|-------------------|---------------------|------------------------|------------------------------|--------------------------------------|-------------------------------|-----------------------------|-----------------------------------|
| Smart Start Fund: | | | | | | | | | |
| Programs: | | | | | | | | | |
| Child Care and Education Quality | \$ 1,238,394 | 89,286 | 1,010 | 3,752 | 13,858 | 12,452 | | 1,118,036 | |
| Child Care and Education Affordability | \$ 36,960 | | | | | | | 36,960 | |
| Health and Safety | \$ 148,746 | | | | | | | 148,746 | |
| Family Support | \$ 771,351 | 9,102 | | | 462 | | | 761,787 | |
| | \$ 2,195,451 | \$ 98,388 | \$ 1,010 | \$ 3,752 | \$ 14,320 | \$ 12,452 | \$ 0 | \$ 2,065,529 | \$ 0 |
| Support: | | | | | | | | | |
| Management and General | \$ 322,954 | 197,941 | 7,173 | 11,496 | 76,768 | 29,377 | 199 | | |
| Program Evaluation | \$ 34,957 | | | | | | | 34,957 | |
| Program Coordination | \$ 35,194 | 34,023 | | | 1,171 | | | | |
| | \$ 393,105 | \$ 231,964 | \$ 7,173 | \$ 11,496 | \$ 77,939 | \$ 29,377 | \$ 199 | \$ 34,957 | \$ 0 |
| Total Smart Start Fund Expenditures | \$ 2,588,556 | \$ 330,352 | \$ 8,183 | \$ 15,248 | \$ 92,259 | \$ 41,829 | \$ 199 | \$ 2,100,486 | \$ 0 |
| Other Funds: | | | | | | | | | |
| Programs: | | | | | | | | | |
| Child Care and Education Quality | \$ 15,394 | 1,253 | 84 | 48 | 1,140 | 1,243 | 5,295 | 6,331 | |
| Family Support | \$ 6,692 | 908 | 5,623 | 161 | | | | | |
| More at Four | \$ 126,036 | | | | | | | 126,036 | |
| | \$ 148,122 | \$ 2,161 | \$ 5,707 | \$ 209 | \$ 1,140 | \$ 1,243 | \$ 5,295 | \$ 132,367 | \$ 0 |
| Support: | | | | | | | | | |
| Management and General | \$ 8,708 | | 8,426 | | 282 | | | | |
| Program Coordination | \$ 1,689 | 1,625 | | | 64 | | | | |
| | \$ 10,397 | \$ 1,625 | \$ 8,426 | \$ 0 | \$ 346 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Other: | | | | | | | | | |
| Sales Tax Paid | \$ 1,536 | \$ 0 | \$ 0 | \$ 1,536 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Total Other Funds Expenditures | \$ 160,055 | \$ 3,786 | \$ 14,133 | \$ 1,745 | \$ 1,486 | \$ 1,243 | \$ 5,295 | \$ 132,367 | \$ 0 |

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

DAVIDSON COUNTY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Davidson County Partnership for Children (Davidson Partnership) is a legally separate nonprofit organization incorporated on February 10, 1994. The Davidson Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Davidson 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 Davidson Partnership's Board of Directors is responsible. Pursuant to the provisions of 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 Davidson Partnership did not have any permanently restricted net assets at June 30, 2002.

- C. Basis of Accounting** - The accompanying financial statements were prepared on the regulatory basis of accounting as prescribed by the North Carolina Partnership for Children, Inc. This basis differs from generally accepted accounting principles primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

D. Cash and Cash Equivalents - This classification appears on the Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis and consists of cash on deposit with private bank accounts.

E. Refunds Due From Contractors - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that 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.

F. 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 Davidson Partnership was holding amounts withheld from employee paychecks for distribution in the next fiscal year.

NOTE 2 - DEPOSITS

All funds of the Davidson Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Davidson Partnership to a concentration of credit risk. At June 30, 2002, the Davidson Partnership's bank deposits in excess of the FDIC insured limit was \$106,491.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Davidson 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 Davidson Partnership.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Davidson Partnership was awarded and has received \$2,612,126 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 \$24,522 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

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

More At Four - The Davidson Partnership also received revenue and support from the State of North Carolina for the More At Four Program. The Davidson Partnership was awarded \$150,894 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new More At Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, quality enhancement grants for maintenance, child care resource and referral, T.E.A.C.H. support, learning materials and teaching aids, or curriculum enhancements.

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

Health and Safety - Used to account for service activities including prenatal/newborn services or child care health consultants/outreach nurses.

Family Support - Used to account for service activities including teen parent/child programs, general family support, community leadership, literacy projects, transportation services, or community outreach.

More at Four - Used to account for development and implementation of More at Four pre-kindergarten program for at-risk four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality pre-kindergarten services in order to enhance kindergarten readiness.

B. Support Functions

Management and General - Expenditures that are not identifiable with a single program or fund-raising activity but are indispensable to the conduct of those activities and to an organization's existence, including expenditures for the overall direction of the organization, its general board activities, business management, general recordkeeping, budgeting, and related purposes.

Program Evaluation - Expenditures that are incurred to monitor the performance of service providers as to the delivery of services and adherence to the specific terms and conditions of the contracts.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - LEASE OBLIGATIONS

Operating Lease Obligations - Future minimum lease payments under non-cancelable operating leases consist of the following at June 30, 2002:

| <u>Fiscal Year</u> | <u>Operating Leases</u> |
|-------------------------------------|-----------------------------|
| 2003 | \$ 2,057 |
| 2004 | 3,382 |
| 2005 | 3,382 |
| 2006 | 3,263 |
| 2007 | <u>1,324</u> |
| Total Minimum Lease Payments | \$ <u>13,408</u> |

Rental expense for all operating leases during the year was \$34,158.

NOTE 7 - PENSION PLAN

The Davidson Partnership has a Simplified Employee Pension (SEP) plan covering all employees who have been employed for one year. Each employee of the Davidson Partnership, with more than one year of service, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Davidson Partnership contributed 6% of gross wages for the year ended June 30, 2002. The only exception to this procedure is for Executive Director whose benefit is 20% of his Annual Salary less the cost for his Health and Life Insurance, with adjustments made quarterly. The Davidson Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

For the year ended June 30, 2002, the Davidson Partnership contributed \$11,420 for pension benefits during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

NOTE 8 - RESTRICTIONS ON NET ASSETS

Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2002 are available for the following purposes:

| Purpose | Amount |
|----------------------------|-----------------|
| Grandparent's Day | \$ 300 |
| CCR&R Emergency Child Care | 935 |
| Kimberly-Clark Foundation | 155 |
| | <u>\$ 1,390</u> |

Davidson County Partnership for Children
Schedule of Contract and Grant Expenditures - Regulatory Basis
For the Year Ended June 30, 2002

Schedule 1

| Organization Name | Smart Start Fund | | Other Funds | |
|--|--------------------|------------------|--------------------|----------------|
| | Amount Advanced | Refund Due | Amount Advanced | Refund Due |
| Coggins Memorial Baptist Church | * | 48,876 | | |
| Community General Health Partner | | 16,069 | | (10) |
| Davidson County Area Program | | 24,726 | | |
| Davidson County Board of Education | * | 461,050 | | |
| Davidson County Community College | * | 221,448 | | (1,184) |
| Davidson County Health Department | * | 150,834 | | (2,088) |
| Davidson County Public Library | * | 114,556 | | |
| Davidson County Schools | * | | 19,255 | |
| Davidson County Transportation | * | 96,900 | | |
| Evaluation, Assessment, and Policy Connections | * | 34,957 | | |
| Family Services of Davidson County | * | 87,442 | | (514) |
| Fleshman Pratt Educational Center | | 60,033 | | |
| Lexington City Schools | | | 67,494 | |
| Northwest Child Development Council | * | 18,538 | 9,747 | |
| Robert Idol Child Development Center | | 88,578 | | |
| South Davidson Family Resource Center | * | 76,702 | | (579) |
| The Learning Place | | 69,900 | | |
| Thomasville City Schools | * | | 29,541 | |
| TYRO Learning Center | | 55,938 | | |
| Various Vendors | | 355,734 | | |
| Von's Kids Inc. | | 55,680 | | |
| | \$ | 2,037,961 | \$ | (4,375) |
| Individuals: | | | | |
| Education for the Stars | | 66,900 | | |
| Scholarships/Bonus Awards | | | 6,330 | |
| | \$ | 66,900 | \$ | 0 |
| | \$ | 2,104,861 | \$ | (4,375) |
| | | | \$ | 132,367 |
| | | | \$ | 0 |

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

***Davidson County Partnership for Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2002***

Schedule 2

| Organization Name | DHHS Contracts | NCPC Contracts | Total Contracts |
|---|---------------------|-------------------|---------------------|
| Child Care Services Association - WAGES Program | 126,100 | | \$ 126,100 |
| Davidson County Department of Social Services * | 1,716,620 | | \$ 1,716,620 |
| | \$ 1,842,720 | \$ 0 | \$ 1,842,720 |
| | | | |
| | | | |
| * 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 either the Department of Health and Human Services (DHHS) or the North Carolina Partnership for Children, Inc. (NCPC) as described in Note 3 - Funding from Grant Awards. | | | |
| | | | |

***Davidson County Partnership for Children
Schedule of State Awards - Regulatory Basis
For the Year Ended June 30, 2002***

Schedule 3

| State Grantor/Pass-through Grantor/Program | Contract # | Receipts | Expenditures |
|---|-----------------|---------------------|---------------------|
| 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) | Various | \$ (18,751) | \$ (4,568) |
| Early Childhood Initiatives Program (Current Year) | * 1-12-1-05-001 | 2,612,126 | 2,593,124 |
| Multi-County Accounting and Contracting Grant | N/A | 12,000 | 8,707 |
| North Carolina Department of Health and Human Services | | | |
| More at Four Pre-Kindergarten Program | 2090002887 | 125,771 | 125,771 |
| Total State Awards | | \$ 2,731,146 | \$ 2,723,034 |

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

Note: The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.

***Davidson County Partnership for Children
Schedule of Property and Equipment
For the Year Ended June 30, 2002***

Schedule 4

| | | | |
|--|-----------|---------------|--|
| | | | |
| Furniture and Non-Computer Equipment | \$ | 25,028 | |
| Computer Equipment/Printers | | 50,981 | |
| Leasehold Improvements | | 966 | |
| | | | |
| Total Property and Equipment | \$ | 76,975 | |
| | | | |
| | | | |
| | | | |
| 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 of purchase. | | | |
| | | | |

**Davidson County Partnership for Children
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2002**

Schedule 5

Match Provided at the Partnership Level:

| | |
|----------------------------|------------------|
| Cash | \$ 3,224 |
| In-Kind Goods and Services | 13,448 |
| | <u>\$ 16,672</u> |

Match Provided at the Contractor Level:

| | |
|----------------------------|-------------------|
| Cash | \$ 527,580 |
| In-Kind Goods and Services | 186,939 |
| | <u>\$ 714,519</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 STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Davidson County Partnership for Children
Lexington, North Carolina

We have audited the financial statements of the Davidson County Partnership for Children (Davidson Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated April 2, 2003. 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 Davidson 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 Davidson 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

**INDEPENDENT AUDITOR'S 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)**

reporting that, in our judgment, could adversely affect the Davidson 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. Control Environment
2. Financial Presentations
3. Contract Management and Monitoring

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

This report is intended solely for the information and use of the management of the partnership, the North Carolina Partnership for Children, 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

April 2, 2003

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

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

1. CONTROL ENVIRONMENT

The control environment involves management's and the board of directors' attitude, awareness, and actions concerning internal control. During the current audit, we noted the following conditions related to the control environment of the Davidson Partnership:

- The Board appears to be indecisive in determining the role it plays in both the funding for and monitoring of its funded partners. We noted instances where established criteria for grant activities were amended after the fact that directly affected the allowability of costs.
- Serious financial and programmatic issues were noted with a funded partner and its compliance with a contracted activity. Evidence suggests many of the children served failed to meet the eligibility requirements of the activity. While the Board properly investigated the issue, the funded partner was not required to repay the Partnership for the ineligible payments. The activity was funded at \$41,500 for the fiscal year.
- Staff turnover affected the Partnership's ability to effectively monitor its contract and grant activities. Our audit identified deficiencies in the processing and monitoring of contract and grant activities as discussed in Finding #3.

Recommendation: The Board's role in any organization is to provide direction and guidance for the operations of the organization. This includes proper oversight of management to ensure Partnership activities are conducted in accordance with the Board's directives as well as applicable laws and regulations. The Board should seek appropriate assistance from its state funding entity, the North Carolina Partnership for Children, Inc., for Board and staff training issues. Attention should be given to the consistent application of funding criteria and an established system for reviewing issues of noncompliance.

Partnership's Response: The Board has been somewhat indecisive for the last two years as we started to question the leadership of the Executive Director. The Board still has some work left to do to establish clear roles for the Board and the Executive Director. I have just assumed the role of Chairman and hope to clearly establish the roles for our new Executive Director.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

This issue of an agency with serious financial and programmatic issues has since been removed from the Partnership's funding cycle. I have personal knowledge of the agency's overhaul and reorganization. The Partnership was unable to determine if criminal behavior was present at the agency. The Board has taken necessary steps to ensure an agency has more oversight and monitoring.

Staff turnover has been a problem for the Partnership for the last two years. We hope that we corrected the problem by changing leadership(ED). At this point the contract manager and A/P Clerk have been on board for almost a year and have provided stability.

2. FINANCIAL PRESENTATIONS

The Davidson Partnership failed to adjust its accounting records for the School Readiness Program as required by its oversight agency, the North Carolina Partnership for Children, Inc. (NCPC). As such, the financial presentations of the Davidson Partnership were materially misstated by \$434,500.

Recommendation: We recommend that the Partnership establish and implement proper procedures for the review and classification of transactions to ensure that activities are recorded correctly in the accounting records and in accordance with NCPC requirements.

Partnership's Response: The Partnership has taken steps to correct the coding error. Our financial manager corrected the problem and future coding errors should not take place.

3. CONTRACT MANAGEMENT AND MONITORING

We identified weaknesses in the Davidson Partnership's contract management and monitoring activities. Documentation was insufficient or unavailable to support changes to established program criteria, eligibility of payments for in-house grant activities, or the Partnership's programmatic monitoring activities. Issues noted during our testwork included:

- Payments totaling \$1,500 were made to recipients who did not meet the eligibility criteria established for the Education for the Stars activity.
- Payments totaling \$2,978 were made to child-care centers under the Quality Smart Start Bonus activity that were subsequently determined to be overpayments or to ineligible recipients.
- Payments totaling \$39,765 were processed for centers prior to verification of eligibility. Supporting documentation was subsequently received by the Partnership to satisfy the requirements of the program.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

- No documentation was available to support the programmatic monitoring for the More at Four activity.

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

Recommendation: We recommend that the Davidson Partnership enhance its contract management and monitoring procedures to ensure that documentation is maintained to support program criteria, eligibility of grant payments, as well as the Partnership's programmatic monitoring activities.

Partnership's Response: The Partnership has implemented policies that ensure eligibility has been verified. We acknowledge that some paperwork arrived after the payments were sent to the funded agencies (\$39,765). The totals of \$1,500 and \$2,978 should be caught with the new eligibility evaluation/monitoring policies. The More at Four activities were new to the agency and were under direct control of the Executive Director. Since our previous Executive Director has left we have acquainted ourselves, albeit by fire, with the entire More at Four program.

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August 27, 2003

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