



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF STANLY COUNTY PARTNERSHIP FOR CHILDREN

ALBEMARLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**STANLY COUNTY PARTNERSHIP FOR CHILDREN**

**ALBEMARLE, NORTH CAROLINA**

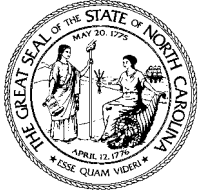
**FOR THE YEAR ENDED JUNE 30, 2002**

**BOARD OF DIRECTORS**

**JAMES A. JONES, BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**BARBARA D. WHITLEY, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

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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, Stanly County Partnership For Children

This report presents the results of our financial statement audit of the Stanly County Partnership For Children (Stanly 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 Stanly 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 Stanly Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 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 Stanly Partnership is one of these local partnerships. As such, the Stanly 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)

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

**Results** - The following instances of noncompliance were detected:

**Finding**

1. Competitive Bidding
2. Prohibited Disbursements

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.

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

**Results** - Our tests disclosed no material weaknesses in the internal control over financial reporting which require disclosure herein under *Government Auditing Standards*.

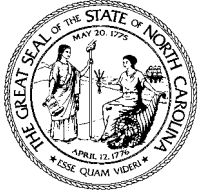
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

Ralph Campbell, Jr.  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Stanly County Partnership For Children  
Albemarle, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Stanly County Partnership For Children (Stanly 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 Stanly 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 Stanly 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 17, 2003 on our consideration of the Stanly 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 Stanly 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

April 17, 2003

**Stanly 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		
<b>Receipts:</b>				
State Awards (less refunds of \$62,598)	\$ 1,633,406	\$ 0	\$ 0	\$ 1,633,406
Interest and Investment Earnings		2,761		2,761
Sales Tax Refunds		3,700		3,700
Other Receipts		15,616		15,616
<b>Total Receipts</b>	1,633,406	22,077		1,655,483
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		2,840	(2,840)	
	1,633,406	24,917	(2,840)	1,655,483
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	395,280	171		395,451
Child Care and Education Affordability	475,261	9,976		485,237
Health and Safety	160,589			160,589
Family Support	407,607	325		407,932
Support:				
Management and General	181,001	5,047		186,048
Program Evaluation	29,120			29,120
Other:				
Sales Tax Paid		2,111		2,111
Refund of Prior Year Grant		4,229		4,229
<b>Total Expenditures</b>	1,648,858	21,859		1,670,717
<b>Excess of Receipts Over Expenditures</b>	(15,452)	3,058	(2,840)	(15,234)
<b>Net Assets at Beginning of Year</b>	61,705	16,449	2,840	80,994
<b>Net Assets at End of Year</b>	\$ 46,253	\$ 19,507	\$ 0	\$ 65,760
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 33,306	\$ 19,507	\$ 0	\$ 52,813
Refunds Due From Contractors	12,947			12,947
	\$ 46,253	\$ 19,507	\$ 0	\$ 65,760
The accompanying notes to the financial statements are an integral part of this statement.				



*Stanly 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
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 395,280	198,360	5,827	27,370	28,701	48,289	13,807	72,926	
Child Care and Education Affordability	\$ 475,261							475,261	
Health and Safety	\$ 160,589							160,589	
Family Support	\$ 407,607	55,855	1,674	2,722	9,578	3,744	51	333,983	
	\$ 1,438,737	\$ 254,215	\$ 7,501	\$ 30,092	\$ 38,279	\$ 52,033	\$ 13,858	\$ 1,042,759	\$ 0
<b>Support:</b>									
Management and General	\$ 181,001	136,273	4,892	1,695	22,781	14,861	499		
Program Evaluation	\$ 29,120		29,120						
	\$ 210,121	\$ 136,273	\$ 34,012	\$ 1,695	\$ 22,781	\$ 14,861	\$ 499	\$ 0	\$ 0
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 1,648,858</b>	<b>\$ 390,488</b>	<b>\$ 41,513</b>	<b>\$ 31,787</b>	<b>\$ 61,060</b>	<b>\$ 66,894</b>	<b>\$ 14,357</b>	<b>\$ 1,042,759</b>	<b>\$ 0</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 171				171				
Child Care and Education Affordability	\$ 9,976							9,976	
Family Support	\$ 325		110	3	212				
	\$ 10,472	\$ 0	\$ 110	\$ 3	\$ 383	\$ 0	\$ 0	\$ 9,976	\$ 0
<b>Support:</b>									
Management and General	\$ 5,047	\$ 0	\$ 5,047	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Other:</b>									
Sales Tax Paid	\$ 2,111			2,111					
Refund of Prior Year Grant	\$ 4,229					4,229			
	\$ 6,340	\$ 0	\$ 0	\$ 2,111	\$ 0	\$ 4,229	\$ 0	\$ 0	\$ 0
<b>Total Other Funds Expenditures</b>	<b>\$ 21,859</b>	<b>\$ 0</b>	<b>\$ 5,157</b>	<b>\$ 2,114</b>	<b>\$ 383</b>	<b>\$ 4,229</b>	<b>\$ 0</b>	<b>\$ 9,976</b>	<b>\$ 0</b>

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

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** - The Stanly County Partnership for Children (Stanly Partnership) is a legally separate nonprofit organization incorporated on November 23, 1993. The Stanly Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Stanly 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 Stanly 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 Stanly Partnership did not have any temporarily or 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 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.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets –Regulatory Basis and includes petty cash, cash on deposit with private bank accounts, and savings 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. 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 Stanly 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 Stanly Partnership to a concentration of credit risk. At June 30, 2002, the Stanly Partnership’s bank deposits in excess of the FDIC insured limit was \$8,776.

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Stanly 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 Stanly Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts

## NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

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entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Stanly Partnership was awarded and has received \$1,696,004 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 \$46,253 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.

### NOTE 4 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** - The board members of the Stanly Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Stanly Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

### NOTE 5 - FUNCTIONAL EXPENDITURES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – Regulatory Basis. Also, the Statement of Functional Expenditures – Regulatory Basis provides detail of the functional costs by their natural classification. Following are the services associated with the functional categories presented in the accompanying financial statements and the methods utilized to allocate joint cost:

#### A. Program Functions

**Child Care and Education Quality** - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, professional development, salary supplements, mentoring programs, or learning materials and teaching aids.

## NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

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**Child Care and Education Affordability** - Used to account for service activities including public pre-K classes, part day care programs, or supplements for quality.

**Health and Safety** - Used to account for service activities including dental treatment, child care health consultants/outreach nurses, comprehensive health support, or developmental screenings.

**Family Support** - Used to account for service activities including family resource centers, parenting education and skills training, teen parent/child programs, transportation services, outreach materials, community outreach, or orientation to kindergarten.

### 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 employee time reports.

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

<u>Expense Category</u>	<u>Amount</u>
Contracted Services	\$ 8,339
Supplies and Materials	1,027
Other Operation Expenses	20,947
Fixed Charges and Other Expenses	<u>57,312</u>
<b>Total Allocated Cost</b>	<b><u>\$ 87,625</u></b>

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

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**NOTE 6 - LEASE OBLIGATIONS**

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

<u>Fiscal Year</u>	<u>Operating Leases</u>
2003	\$ 74,616
2004	14,444
<b>Total Minimum Lease Payments</b>	<b>\$ 89,060</b>

Rental expense for all operating leases during the year was \$57,138.

**NOTE 7 - PENSION PLAN**

**IRC Section 401(k)** The Stanly Partnership has an IRC Section 401(k) Plan. The cost of administering the Plan is shared by the Partnership and the Plan participants. The administrative costs paid by the Partnership for the 2002 fiscal year was \$1,740. Administrative costs are paid by the participants from the participant's individual accounts. Employees may make voluntary contributions to the Plan. The Partnership makes a matching contribution equal to 50% of the first 6% of the employees' contributions. In addition, the Partnership makes an employer-based contribution of 1% of compensation that is shared by all eligible employees. This employer-based contribution occurs regardless to the amount of elective deferrals made by the employees. The Stanly Partnership contributed \$5,139, including both the employer-based and matched contribution, for the year ended June 30, 2002. The voluntary contributions by employees amounted to \$7,701.

**NOTE 9 - RESTRICTIONS ON NET ASSETS**

**Net Assets Released From Donor Restrictions** - Net assets were released from donor restrictions during the fiscal year ended June 30, 2002, by the Partnership reverting the funds back to NCPC.

<u>Purpose</u>	<u>Amount</u>
Computer Training	\$ 2,840

*Stanly 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	
ARC Services, Inc.	*	51,696	(2,742)		
Greenwood Center	*	9,600		561	
Kiddie Kare Day Care		11,325		469	
Little Friends	*	9,175		524	
Love-N-Care		38,537		1,795	
NC Cooperative Extension of Stanly County	*	202,920	(5,605)		
Norwood Head Start & Child Development Center	*	4,840			
Quality Child Care		44,800		1,920	
Richfield Child Development		35,275		1,551	
Stanly Community Christian Ministry, Inc.		63			
Stanly County Board of Education	*	258,682	(3,305)		
Stanly County Head Start	*	7,150			
Stanly County Health Department	*	112,852	(1,280)		
Stanly County Transportation		120			
Susie's Friends Day Care	*	5,503		200	
Various Day Cares		53,382	(15)	2,956	
		<b>\$ 845,920</b>	<b>\$ (12,947)</b>	<b>\$ 9,976</b>	<b>\$ 0</b>
<b>Individuals:</b>					
Educational/Service Incentive		72,536			
Infant Care Program		137,250			
		<b>\$ 209,786</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
		<b>\$ 1,055,706</b>	<b>\$ (12,947)</b>	<b>\$ 9,976</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.					

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

***Schedule 2***

<b>Organization Name</b>		<b>DHHS Contracts</b>	<b>NCPC Contracts</b>	<b>Total Contracts</b>
Stanly County Department of Social Services	*	\$ 576,165	\$ 0	\$ 576,165
* 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				



***Stanly 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
<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 Years)	Various	\$ (62,598)	\$ (893)
Early Childhood Initiatives Program (Current Year)	* 1-12-1-12-001	1,696,004	1,649,751
<b>Total State Awards</b>		<b>\$ 1,633,406</b>	<b>\$ 1,648,858</b>
* Programs with compliance requirements that have a direct and material effect on the financial statements.			

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

***Schedule 4***

	Furniture and Non-Computer Equipment	\$	91,038
	Computer Equipment/Printers		67,119
	Buildings		289,814
	Leasehold Improvements		300,621
	Motor Vehicles		15,959
	Total Property and Equipment	\$	<u>764,551</u>
	<p>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.</p>		

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

**Schedule 5**

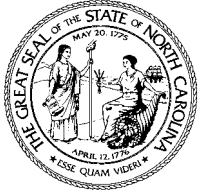
*Match Provided at the Partnership Level:*

In-Kind Goods and Services	\$ 7,077
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*Match Provided at the Contractor Level:*

Cash	\$ 179,138
In-Kind Goods and Services	87,422
	\$ 266,560

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.



Ralph Campbell, Jr.  
State Auditor

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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**

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Board of Directors  
Stanly County Partnership For Children  
Albemarle, North Carolina

We have audited the financial statements of the Stanly County Partnership For Children (Stanly Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated April 17, 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 Stanly 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 instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Finding**

1. Competitive Bidding
2. Prohibited Disbursements

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Stanly 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. Our consideration of the internal control over

**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)**

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financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operations that we consider 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 17, 2003

## 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 findings and recommendations were identified during the current and prior audit and represent noncompliance with laws, regulations, contracts, or grants.

#### 1. COMPETITIVE BIDDING

We identified in the prior audit that the Stanly Partnership did not have adequate documentation to support its compliance with competitive bidding requirements as specified in the general statutes.

This finding is unresolved. Our current year testwork continued to identify instances where documentation was not available to support compliance with the competitive bidding guidelines.

*Recommendation:* We recommend that the Stanly Partnership place appropriate emphasis on implementing procedures that ensure documentation is maintained to support the competitive bidding process.

*Partnership's Response:* Documentation to support compliance with legislatively mandated bid requirements will be maintained. Stanly County Partnership for Children's policies and procedures regarding bidding will reflect compliance with competitive bidding requirements according to North Carolina law.

To avoid this audit finding being repeated, Stanly County Partnership for Children advertised in May 2003 a Request For Proposal (RFP) for our activities for multi-year bids for the next two years, (fiscal years 2003-04- and 2004-05). In the future, we will be in compliance with the bidding requirements including documentation to support this process.

We have corrected the situation and this will not happen again. We are now fully aware that any bidding advertisement must indicate the number of years that an RFP is covering. We will continue to place an emphasis on implementing procedures that ensure documentation is maintained to support the competitive bidding process.

*Other Current Year Findings and Recommendations* - The following findings and recommendations were identified during the current audit and represent noncompliance with laws, regulations, contracts, or grants.

#### 2. PROHIBITED DISBURSEMENTS

A Direct Service Provider of the Stanly Partnership disbursed State funds during the year for capital expenditures. We identified renovation costs totaling \$60,000 for a dental

## AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

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clinic activity. Legislation enacted for the 2002 fiscal year prohibits local partnerships from using State funds for capital expenditures; therefore, this disbursement is considered to be questioned costs.

*Recommendation:* The costs incurred by the Stanly Partnership for capital expenditures are considered questioned costs and the Partnership should consult with its state level funding agency, the North Carolina Partnership for Children, Inc., for proper resolution. In addition, the Stanly Partnership should establish proper operating procedures to prevent future occurrences of noncompliance with finance-related laws, regulations, and contracts.

*Partnership's Response:* The Stanly County Partnership for Children disagrees with this audit finding and believes this situation deserves providing details regarding the expenditure of \$60,000 that was earmarked for a dental clinic for children in Stanly County. An agreement was signed between the Stanly County Health Department and the Stanly County Partnership for Children on June 15, 2001 after more than a year of planning and collaborating for the purpose of opening a dental clinic. The dental clinic opened April 15, 2002 and has far exceeded expectations in treating children in serious need of dental care.

A dental clinic for children had been a dream of our community since Smart Start came to Stanly County in the fall of 1993. Many efforts were embarked upon over the next five years, and finally Stanly Memorial Hospital decided to open a dental clinic. However, after less than a year the hospital decided against following through with this plan. Then after a Request For Proposal (RFP) to operate a dental clinic resulted in no responses, two more years elapsed, and finally the Stanly County Health Department agreed to pursue making a dental clinic a reality. A planning committee was formed in 2000 and worked to obtain other grants to assist with this big project. Duke Endowment and Kate B. Reynolds Charitable Trust partnered with the Health Department, as well as United Way and some other local organizations. The Partnership for Children had \$60,000 in Smart Start funds that had been earmarked for a dental clinic. This was a true partnership of levying public and private funds to meet a community need, just as Smart Start was designed.

Once the formal agreement was signed on June 15, 2001 between the Stanly County Health Department and the Stanly County Partnership for Children, a check for \$60,000 was given to the Health Department for the purpose of opening a dental clinic for children at the Health Department, with no other restrictions. Plans were to begin the renovations in late summer of 2001, and the \$60,000 was needed to levy the other grant funds. However, due to a delay in the Duke Endowment funds, and construction obstacles, the process did not begin until the end of the year. The law prohibiting Smart Start funds from being used for renovations was not signed until September 26, 2001. Our \$60,000 had already been disbursed according to a signed agreement with the Health Department in the prior fiscal year, **before the law changed establishing restrictions.**

## AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

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It is the contention of the Stanly County Partnership for Children that the disbursement of this \$60,000 did not fail to comply with the law existing at the time the grant was disbursed under a contractual agreement with the Health Department. Any attempt to recall these funds from the Health Department would have been a breach of our contractual agreement. The total cost of the dental clinic project was nearly \$384,000, so the \$60,000 Smart Start funds were a small portion of the total expended for the dental clinic. However, our funds were critical to the project because it was needed to complete the renovations at the Health Department to accommodate a dental clinic. Without our funds, the dental clinic would not have materialized. These funds had been earmarked for a dental clinic originally and in fact ended up being used for the original intended purpose of serving as a start-up grant for a dental program for children in Stanly County.

**We request that this audit finding be removed because these funds were disbursed by the Stanly County Partnership for Children prior to July 1, 2001 and therefore, were not subject to the prohibition on renovations that was established by the General Assembly.** The Stanly County Partnership for Children is fully aware of the laws prohibiting use of State funds for capital expenditures and will continue to follow proper operating procedures to prevent occurrences of noncompliance with finance related laws, regulations, and contracts.

*Auditor's Response:* Per discussions with State level authorities, the carry forward and use of State funds for capital activities was limited and subject to specific criteria. One requirement was that there had to be a reasonable expectation that the original project would have been completed by June 30, 2001. As these funds were not put into contract until June 15, 2001, that expectation could not have existed.



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In accordance with General Statutes 147-64.5 and 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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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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Mr. James D. Johnson	Director, Fiscal Research Division

August 13, 2003

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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