



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
AVERY COUNTY PARTNERSHIP FOR CHILDREN, INC.
NEWLAND, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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

NEWLAND, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

TOM BLEDSOE, BOARD CHAIR

ADMINISTRATIVE OFFICER

KATE GAVENUS, 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, Avery County Partnership for Children, Inc.

This report presents the results of our financial statement audit of the Avery County Partnership for Children, Inc. (Avery 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 Avery 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 Avery Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statute 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 Avery Partnership is one of these local partnerships. As such, the Avery 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** - 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** - Present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - The following instance of noncompliance was detected:

Finding

3. Competitive Bidding

This matter is described in the Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting and the Audit Findings and Recommendations section of this report.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Avery 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. Policies and Procedures
2. 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
Avery County Partnership for Children, Inc.
Newland, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Avery County Partnership for Children, Inc. (Avery 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 Avery 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 Avery County Partnership for Children, Inc. 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 November 8, 2002 on our consideration of the Avery 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 Avery County Partnership for Children, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of the partnership, the North Carolina Partnership for Children, Inc., the Governor, and the General Assembly and is not intended to be, and should not be, used by anyone other than these specified parties.



Ralph Campbell, Jr.
State Auditor

November 8, 2002

Avery County Partnership for Children, Inc.**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 \$58)	\$ 338,630	\$ 30,132	\$ 0	\$ 368,762
Federal Awards (less refunds of \$3)		70,686		70,686
Private Contributions		22,418	1,224	23,642
Special Fund Raising Events		79		79
Interest and Investment Earnings		673		673
Sales Tax Refunds		1,373		1,373
Other Receipts		455		455
Total Receipts	338,630	125,816	1,224	465,670
Expenditures:				
Programs:				
Child Care and Education Quality	73,624	37,968		111,592
Child Care and Education Accessibility and Availability	23,900			23,900
Child Care and Education Affordability	46,895	75		46,970
Health and Safety	9,200	47,813		57,013
Family Support	51,554	24,327		75,881
Support:				
Management and General	97,640	30,993		128,633
Program Evaluation	35,977			35,977
Other:				
Sales Tax Paid		1,241		1,241
Total Expenditures	338,790	142,417	0	481,207
Excess of Receipts Over Expenditures	(160)	(16,601)	1,224	(15,537)
Net Assets at Beginning of Year	10,895	31,943	309	43,147
Net Assets at End of Year	\$ 10,735	\$ 15,342	\$ 1,533	\$ 27,610
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 10,735	\$ 16,772	\$ 1,533	\$ 29,040
Less: Funds Held for Others		1,430		1,430
	\$ 10,735	\$ 15,342	\$ 1,533	\$ 27,610

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

Avery County Partnership for Children, Inc.
Statement 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	\$ 73,624	11,888	22,895	1,452	2,507	3,386		31,125	371
Child Care and Education Accessibility and Availability	\$ 23,900	22,723	1,161		16				
Child Care and Education Affordability	\$ 46,895							46,895	
Health and Safety	\$ 9,200							9,200	
Family Support	\$ 51,554	23,011	2,229	10,376	3,991	1,990	407	9,550	
	\$ 205,173	\$ 57,622	\$ 26,285	\$ 11,828	\$ 6,514	\$ 5,376	\$ 407	\$ 96,770	\$ 371
Support:									
Management and General	\$ 97,640	79,069	3,849	901	7,323	5,391	1,107		
Program Evaluation	\$ 35,977	25,669	1,225	1,109	5,302	2,454	218		
	\$ 133,617	\$ 104,738	\$ 5,074	\$ 2,010	\$ 12,625	\$ 7,845	\$ 1,325	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 338,790	\$ 162,360	\$ 31,359	\$ 13,838	\$ 19,139	\$ 13,221	\$ 1,732	\$ 96,770	\$ 371
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 37,968	18,537	3,440	2,236	2,592	2,943	869	6,597	754
Child Care and Education Affordability	\$ 75							75	
Health and Safety	\$ 47,813	24,849	1,540	3,485	3,119		220	14,600	
Family Support	\$ 24,327		800	2,099	1,118	1,774	6,505	12,031	
	\$ 110,183	\$ 43,386	\$ 5,780	\$ 7,820	\$ 6,829	\$ 4,717	\$ 7,594	\$ 33,303	\$ 754
Support:									
Management and General	\$ 30,993	\$ 1,813	\$ 10,008	\$ 629	\$ 1,233	\$ 17,209	\$ 101	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 1,241	\$ 0	\$ 0	\$ 1,241	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 142,417	\$ 45,199	\$ 15,788	\$ 9,690	\$ 8,062	\$ 21,926	\$ 7,695	\$ 33,303	\$ 754

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

AVERY COUNTY PARTNERSHIP FOR CHILDREN, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Avery County Partnership for Children, Inc. (Avery Partnership) is a legally separate nonprofit organization incorporated on September 20, 1994. The Avery Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Avery 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 Avery 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 Avery 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)

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 includes cash on deposit with private bank accounts.
- 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 Avery Partnership was holding amounts for other organizations in the amount of \$1,430.
- 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 Avery Partnership are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the Avery Partnership to a concentration of credit risk.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The Avery Partnership was awarded and has received \$338,688 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 \$5 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.

Quality Enhancement Project for Infants and Toddlers – The Avery Partnership also received revenue and support from the University of North Carolina (UNC) at Chapel Hill based on a cost-reimbursement contract for the Quality Enhancement Project. The Avery Partnership was awarded \$55,718 under a current year contract with UNC and has received \$39,103 of this amount. The unexpended balance of this contract is subject to reversion to the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Avery Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Avery 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 child care resource and referral, childcare substitutes, and curriculum enhancements.

Child Care and Education Accessibility and Availability - Used to account for service activities associated with inclusion support.

Child Care and Education Affordability - Used to account for service activities including transportation to childcare and supplements for quality.

Health and Safety - Used to account for service activities including dental education, comprehensive screenings, prenatal/newborn services, childcare health consultants/outreach nurses, child abuse and neglect intervention, and special needs – early intervention services.

Family Support - Used to account for service activities including family resource centers, general family support, support services for children and families in crisis, transportation services, and community outreach.

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:

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

<u>Expense Category</u>	<u>Amount</u>
Contracted Services	\$ 5,982
Supplies and Materials	5,252
Other Operating Expenses	12,365
Fixed Charges and Other Expenses	17,066
Property and Equipment	<u>948</u>
Total Allocated Other Costs	<u>\$ 41,613</u>

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	\$ 10,595
2004	8,350
2005	<u>1,400</u>
Total Minimum Lease Payments	<u>\$ 20,345</u>

Rental expense for all operating leases during the year was \$16,350.

NOTE 7 - PENSION PLAN

IRC Section 403(b) Plan - Each employee of the Avery Partnership is provided, as part of the benefit package, an additional 5% of his/her salary to be applied to a retirement plan. The Partnership has no liability for any other cost other than the required percentage. All permanent employees who are at least half time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other non-profit organizations. All costs of administering and funding these plans are the responsibility of the Plan participants. The Partnership contributed \$5,732 for retirement benefits during the year. The voluntary contributions by employees amounted to \$4,448 during the year ended June 30, 2002.

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:

<u>Purpose</u>	<u>Amount</u>
Child Safety Program	\$ 657
Music Education Program	567
Hispanic Outreach Program	<u>309</u>
	<u>\$ 1,533</u>

Avery County Partnership for Children, Inc.
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
Avery County Public School System	*	36,380		1,933	
Avery County Transportation	*	2,800		1,127	
Newland Child Development Center	*	3,090			
Parent to Parent/Family Support Network of the High Country		8,000			
Phillips-Gwaltney Child Development Center	*	16,043		1,841	
Spruce Pine Community Hospital				5,000	
Toe River Health District WIC Program				9,600	
Various Day Care Providers		29,257		2,898	
Volunteer Avery County	*			10,904	
		\$ 95,570	\$ 0	\$ 33,303	\$ 0
Individuals:					
Hearing/Vision Screening Payments		\$ 1,200	\$ 0	\$ 0	\$ 0
		\$ 96,770	\$ 0	\$ 33,303	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.					

Avery County Partnership for Children, Inc.
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2002

Schedule 2

Organization Name	DHHS Contracts	NCPC Contracts	Total Contracts
Avery County Department of Social Services	97,775		\$ 97,775
Child Care Services Association - WAGES Program	33,032		\$ 33,032
	\$ 130,807	\$ 0	\$ 130,807

* 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

Avery County Partnership for Children, Inc.

Schedule of Federal and State Awards - Regulatory Basis

For the Year Ended June 30, 2002

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
U.S. Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development				
Child Care and Development Block (Prior Year)	93.575	5843	\$ (3)	\$ 0
Child Care and Development Block (Current Year)	93.575	5978	23,653	28,421
U.S. Department of Health and Human Services				
Pass-through from the North Carolina Department of Health and Human Services - Division of Child Development and the University of North Carolina at Chapel Hill				
Quality Enhancement Project for Infants and Toddlers (Prior Year)	93.575	5-57306	7,933	
Quality Enhancement Project for Infants and Toddlers (Current Year)	93.575 *	5-57453	39,103	33,163
Total Federal Awards			70,886	61,584
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)		1-01-2-02-001	(58)	
Early Childhood Initiatives Program (Current Year)		* 1-12-2-02-001	338,688	338,790
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
North Carolina Department of Public Instruction				
Pass-through from the North Carolina State Board of Education				
Avery Connections		0800009684	9,179	25
North Carolina Department of Insurance				
Pass-through from the Office of State Fire Marshal				
North Carolina Safe Kids/Safe Communities		N/A	8,953	6,415
Total State Awards			368,762	357,230
Total Federal and State Awards			\$ 439,448	\$ 418,814
* Programs with compliance requirements that have a direct and material effect on the financial statements.				

Avery County Partnership for Children, Inc.
Schedule of Property and Equipment
For the Year Ended June 30, 2002

Schedule 4

Furniture and Non-Computer Equipment		\$	13,811
Computer Equipment/Printers			23,977
Leasehold Improvements			2,500
Motor Vehicles			5,928
Total Property and Equipment		\$	<u>46,216</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 of purchase.			

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

Schedule 5

Match Provided at the Partnership Level:

Cash	\$	6,043
In-Kind Goods and Services		4,049
	\$	<u>10,092</u>

Match Provided at the Contractor Level:

Cash	\$	27,118
In-Kind Goods and Services		16,529
	\$	<u>43,647</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
Avery County Partnership for Children, Inc.
Newland, North Carolina

We have audited the financial statements of the Avery County Partnership for Children, Inc. (Avery Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated November 8, 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 Avery 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

3. Competitive Bidding

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Avery 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

**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)**

internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Avery 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. Policies and Procedures
2. 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

November 8, 2002

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 or noncompliance with laws, regulations, contracts, or grants.

1. POLICIES AND PROCEDURES

During our audit, we found that the Avery Partnership's policies and procedures for financial accounting did not sufficiently address the organization's needs. Improvements are needed in the areas of processing of payments, contract management, and competitive bidding.

Policies and procedures provide direction to staff to ensure that assets are safeguarded, that accounting data is accurate and reliable, and that operations are efficient and carried out in accordance with management's intentions. In this regard, we noted material misstatements that resulted in numerous audit adjustments to the financial presentations.

Recommendation: We recommend the development and implementation of effective policies and procedures, along with Board oversight, to address the accurate processing of transactions and to ensure fiscal accountability.

Partnership's Response: ACPFC will review, amend and update our Policies and Procedures manual as needed to ensure accurate recording of all transactions.

2. CONTRACT MANAGEMENT AND MONITORING

We identified deficiencies in the contract management and monitoring system of the Avery Partnership that included the following:

- There were no formal grant agreements to support disbursements totaling \$46,970 for the level bonus activity. In addition, this activity was not a part of the strategic plan approved by the North Carolina Partnership for Children, Inc. until September 12, 2001. We noted payments of \$3,250 for this activity prior to that date that are considered to be questioned costs.
- We identified errors in the Partnership's processing of contract and grant payments. Payments were made to direct service providers prior to the execution of formal contracts. Overpayments of contract amounts were made due to inadequate contract amendments. In addition, we noted calculation errors within our test items for the level bonus and floater activities that resulted in overpayments.
- Documentation to support monitoring activities was limited or not in accordance with established policies.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

Recommendation: We recommend that the Partnership further refine and implement contract management and monitoring policies and procedures. Those procedures should address the establishment of formal contract agreements; processing payments in accordance with contract terms and established program guidelines, and performing documented monitoring activities in accordance with established policies. The Avery Partnership should contact the North Carolina Partnership for Children, Inc. for proper guidance as to resolving identified questioned costs.

Partnership's Response: The Level Bonus program has been an approved part of ACPFC's plan as an ongoing program for seven years, and was included in the initial approval letter from NCPC for the 01-02 plan. In last June 2001, approval was moved to the "pending" category while NCPC staff determined whether or not the program needed to be changed in anticipation of changes in restrictions and requirements from the legislature. However, the program was returned to "Approved" status, with no changes, in September 2001. Previous years of approved operation coupled with the initial approval and the lack of changes necessary to return to approved status gave constructive notice that payment of Level Bonus funds for July and August 2001 was a justifiable expenditure of Smart Start funds. ACPFC will contact NCPC to verify that the expenditure of \$3,250 is considered a justified cost. From this point forward, no programs will be conducted with Smart Start funds until full approval in writing is given by NCPC.

All childcare sites in Avery County are eligible automatically for the Level Bonus program. Payments are made monthly upon receipt of a request and documentation of the number of children attending in the previous month; the amount of payments per child is determined by the site's licensing level. This has been an ongoing program and has never been operated with a formal written contract between ACPFC and the sites in the past; however, we are happy to implement a formal contract with each recipient at the request of the State Auditor's office, and have done so for this fiscal year.

ACPFC's Program Monitoring Plan is being modified to more accurately reflect the level of monitoring that is being done and to ensure the documentation is on file for each program. We agree with the State Auditor's recommendation that ACPFC's contract management and monitoring procedures should be further refined and clarified and will do so in this fiscal year.

3. COMPETITIVE BIDDING

Sufficient documentation was not available to support the Partnership's compliance with the competitive bidding requirements.

Recommendation: We recommend that the Partnership comply with the legislatively mandated bid requirements.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Partnership's Response: ACPC's Competitive Bidding Policy has been in effect since August 2002, when it was approved at a meeting by NCPC staff. It has been reviewed by two sets of auditors and a Fiscal Monitor from NCPC and has not been found to be deficient. The policy was in compliance with NC General Statutes when it was implemented; NCPC has since been given authority to establish a Competitive Bidding Policy that is now in place and which will be adopted by ACPFC in FY03-04. While we assert that our policy was in compliance with state regulations for FY 01-02, we agree that documentation of policy implementation was not adequate. In the future, ACPFC will ensure that documentation of compliance with all regulations is available and on file.

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March 7, 2003

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