



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF

WILKES COMMUNITY PARTNERSHIP FOR CHILDREN

NORTH WILKESBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF
WILKES COMMUNITY PARTNERSHIP FOR CHILDREN
NORTH WILKESBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

MIKE INSCORE, BOARD CHAIR

ADMINISTRATIVE OFFICER

LAURA WELBORN, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Wilkes Community Partnership for Children (Wilkes 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 Wilkes 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 Wilkes 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 Wilkes Partnership is one of these local partnerships. As such, the Wilkes 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 Wilkes 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. Financial Presentations
2. Internal Control

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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A - Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis	3
B - Statement of Functional Expenditures - Regulatory Basis	4
Notes to the Financial Statements	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures - Regulatory Basis	10
2 Schedule of State Level Service Provider Contracts.....	11
3 Schedule of Federal and State Awards - Regulatory Basis	12
4 Schedule of Property and Equipment	13
5 Schedule of Qualifying Match (Non-GAAP).....	14
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 <i>GOVERNMENT AUDITING</i> <i>STANDARDS</i>	15
AUDIT FINDINGS AND RECOMMENDATIONS.....	17
DISTRIBUTION OF AUDIT REPORT	19



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Wilkes Community Partnership for Children
North Wilkesboro, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Wilkes Community Partnership for Children (Wilkes 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 Wilkes 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 Wilkes Community 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 May 13, 2003 on our consideration of the Wilkes 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 Wilkes Community 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

May 13, 2003

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

	Unrestricted Funds		Total Funds
	Smart Start Fund	Other Funds	
Receipts:			
State Awards (less refunds of \$19,715)	\$ 932,279	\$ 1,032	\$ 933,311
Federal Awards		71,145	71,145
Local Awards		36,181	36,181
Private Contributions	50	9,879	9,929
Interest and Investment Earnings		2,057	2,057
Sales Tax Refunds		7,739	7,739
Other Receipts	2,520		2,520
Total Receipts	934,849	128,033	1,062,882
Expenditures:			
Programs:			
Child Care and Education Quality	261,645	68,523	330,168
Child Care and Education Accessibility and Availability	3,432		3,432
Child Care and Education Affordability	43,175	25,517	68,692
Health and Safety	142,271		142,271
Family Support	285,018	22,479	307,497
Support:			
Management and General	175,135	776	175,911
Program Evaluation	34,878		34,878
Other:			
Sales Tax Paid		1,968	1,968
Total Expenditures	945,554	119,263	1,064,817
Excess of Receipts Over Expenditures	(10,705)	8,770	(1,935)
Net Assets at Beginning of Year	20,609	(81)	20,528
Net Assets at End of Year	\$ 9,904	\$ 8,689	\$ 18,593
Net Assets Consisted of:			
Cash and Cash Equivalents	\$ 17,169	\$ 9,286	\$ 26,455
Less: Funds Held for Others	7,265	597	7,862
	\$ 9,904	\$ 8,689	\$ 18,593
The accompanying notes to the financial statements are an integral part of this statement.			

***Wilkes Community 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	\$ 261,645	107,578	11,917	12,660	25,574	36,348	2,984	60,000	4,584
Child Care and Education Accessibility and Availability	\$ 3,432							3,432	
Child Care and Education Affordability	\$ 43,175							43,175	
Health and Safety	\$ 142,271	23,134	3,711	5,268	2,323		550	107,285	
Family Support	\$ 285,018	210,137	8,341	16,516	27,633	1,274	1,104	20,013	
	\$ 735,541	\$ 340,849	\$ 23,969	\$ 34,444	\$ 55,530	\$ 37,622	\$ 4,638	\$ 233,905	\$ 4,584
Support:									
Management and General	\$ 175,135	122,936	19,580	8,097	14,695	9,677	150		
Program Evaluation	\$ 34,878		34,878						
	\$ 210,013	\$ 122,936	\$ 54,458	\$ 8,097	\$ 14,695	\$ 9,677	\$ 150	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 945,554	\$ 463,785	\$ 78,427	\$ 42,541	\$ 70,225	\$ 47,299	\$ 4,788	\$ 233,905	\$ 4,584
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 68,523	34,204	25,365	4,454	4,500				
Child Care and Education Affordability	\$ 25,517							25,517	
Family Support	\$ 22,479	21,689		161	262	367			
	\$ 116,519	\$ 55,893	\$ 25,365	\$ 4,615	\$ 4,762	\$ 367	\$ 0	\$ 25,517	\$ 0
Support:									
Management and General	\$ 776	\$ 715	\$ 0	\$ 61	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 1,968	\$ 0	\$ 0	\$ 1,968	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 119,263	\$ 56,608	\$ 25,365	\$ 6,644	\$ 4,762	\$ 367	\$ 0	\$ 25,517	\$ 0

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

WILKES COMMUNITY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Wilkes Community Partnership for Children (Wilkes Partnership) is a legally separate nonprofit organization incorporated on May 9, 1994. The Wilkes Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Wilkes 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 Wilkes 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.

The Wilkes 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.

However, 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 petty cash and cash on deposit with private bank accounts.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Wilkes Partnership was holding amounts withheld from employee paychecks for distribution to taxing authorities.

NOTE 2 - DEPOSITS

All funds of the Wilkes 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 Wilkes Partnership to a concentration of credit risk.

In addition, the Wilkes Partnership has an Automated Investment Plan to invest excess balances over an established target amount. The investment consists of repurchase agreements for securities of the United States of America and is not insured by the FDIC. Consequently, the Wilkes Partnership bank deposits in excess of the FDIC insured limit totaled \$55,705 at June 30, 2002.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

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

The Wilkes Partnership was awarded and has received \$951,994 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 \$377 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

NOTE 4 - RELATED PARTY TRANSACTIONS

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

B. Other Related Parties - The Wilkes Partnership entered into transactions for accounting and payroll services with private businesses associated with board members of the Partnership. The amounts paid included:

<u>Expenditures</u>	<u>Amount</u>
Accounting Services	\$ 14,600
Payroll Services	<u>2,450</u>
Total Expenditures	<u>\$ 17,050</u>

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:

A. Program Functions

Child Care and Education Quality - Used to account for service activities including child care resource and referral, child care substitutes, salary supplements, mentoring programs, or behavior intervention.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Child Care and Education Affordability - Used to account for service activities including child care subsidy administration (DCD), child care cost supports (DCD), child care subsidy, or supplement for quality (DCD).

Health and Safety - Used to account for service activities including mobile health unit, comprehensive screenings, or child care health consultants/outreach nurses.

Family Support - Used to account for service activities including family resource centers or literacy projects.

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.

NOTE 6 - LEASE OBLIGATIONS

A. 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	\$ 25,565
2004	24,000
2005	<u>6,000</u>
Total Minimum Lease Payments	<u>\$ 55,565</u>

Rental expense for all operating leases during the year was \$37,986.

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

B. Capital Lease Obligations - Capital lease obligations relating to communication equipment are recorded at the present value of the minimum lease payments. Future minimum lease payments under capital lease obligations consist of the following at June 30, 2002:

<u>Fiscal Year</u>	<u>Capital Leases</u>
2003	<u>\$ 3,680</u>

NOTE 7 - PENSION PLAN

Deferred Compensation and Supplemental Retirement Income Plans - IRC Sections 403(b) and 403(b)(7) Plans - All permanent employees who are at least half-time can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). 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 nonprofit organizations. All costs of administering and funding these plans are the responsibility of the Plan participants. The Wilkes Partnership contributed 10% of gross wages for the year ended June 30, 2002. Employees may make voluntary contributions to the Plan. For the year ended June 30, 2002, the Wilkes Partnership contributed \$34,196. The voluntary contributions by employees amounted to \$2,907.

***Wilkes Community 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
Various Day Care Providers		3,432			
Wilkes County Health Department	*	107,285			
Wilkes County Schools	*	60,000			
Wilkes Transportation Authority		20,013			
		\$ 190,730	\$ 0	\$ 0	\$ 0
<i>Individuals:</i>					
Child Care Expense Reimbursements		43,175		9,017	
Scholarships/Bonus Awards				16,500	
		\$ 43,175	\$ 0	\$ 25,517	\$ 0
		\$ 233,905	\$ 0	\$ 25,517	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4A - Service Provider Contracts with Board Member Organizations.					

***Wilkes Community 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		90,000		\$ 90,000
Wilkes County Department of Social Services	*	1,055,500		\$ 1,055,500
		\$ 1,145,500	\$ 0	\$ 1,145,500
* These organizations are represented on the Partnership's Board as described in Note 4A - 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.				

<i>Wilkes Community Partnership for Children</i>				
<i>Schedule of Federal and State Awards - Regulatory Basis</i>				
<i>For the Year Ended June 30, 2002</i>				<i>Schedule 3</i>
	Federal			
	CFDA			
Federal/State Grantor/Pass-through Grantor/Program	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 Resource and Referral	93.575	6011	\$ 58,345	\$ 59,000
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	(19,715)	(2,775)
Early Childhood Initiatives Program (Current Year)		* 1-12-2-11-001	951,994	948,329
Total State Awards			932,279	945,554
Total Federal and State Awards			\$ 990,624	\$ 1,004,554
* Programs with compliance requirements that have a direct and material effect on the financial statements.				

Wilkes Community Partnership for Children
Schedule of Property and Equipment
For the Year Ended June 30, 2002

Schedule 4

	Furniture and Non-Computer Equipment	\$	35,995
	Computer Equipment/Printers		23,416
	Buildings		1,527
	Leasehold Improvements		14,149
	Total Property and Equipment	\$	75,087
	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.		

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

Schedule 5

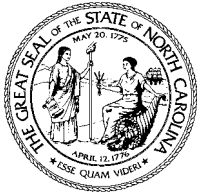
Match Provided at the Partnership Level:

Cash	\$	7,769
In-Kind Goods and Services		53,150
	\$	60,919

Match Provided at the Contractor Level:

Cash	\$	277,466
------	----	---------

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

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

**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
Wilkes Community Partnership for Children
North Wilkesboro, North Carolina

We have audited the financial statements of the Wilkes Community Partnership for Children (Wilkes Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated May 13, 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 Wilkes 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 Wilkes 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 reporting, that in our judgment, could adversely affect the Wilkes Partnership's ability to record, process, summarize and report financial data consistent with the assertions of

**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)**

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. Financial Presentations
2. Internal Control

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

May 13, 2003

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

Current Year Findings and Recommendations Also Reported in Prior Audit - The following finding and recommendation was identified during the current and prior audit and represents a significant deficiency in internal control.

1. FINANCIAL PRESENTATIONS

The prior year audit identified material misstatements with the Wilkes Partnership's financial presentations. Errors included:

- Net asset balances had to be restated, as prior year audit entries had not been correctly posted.
- Improper use of the standard chart of accounts designed for proper reporting of expenditures to the North Carolina Partnership for Children, Inc.
- Erroneous coding of non-Smart Start expenditures to fundraising activities.

This finding is unresolved. We continued to identify errors in the financial presentations of the Partnership. Adjustments were again necessary to restate the beginning net asset balances of the Partnership. This included the correction of restricted fund activities in agreement with the prior year presentations. We also identified numerous errors in the Partnership's recording of transactions including:

- Federal funds totaling \$59,000 were incorrectly reported as private contributions.
- Grant awards incorrectly recorded as a reduction of expenditures thereby understating both revenue and expenditure amounts.
- Sales tax receipts incorrectly reported as State awards.
- Expenditure amounts recorded to incorrect classifications.

The amounts identified were material to the financial presentations of the Partnership.

Recommendation: The Wilkes Partnership should establish and implement proper procedures for the classification and review of transactions to ensure the consistency and accuracy of financial presentations.

Partnership's Response: Wilkes Community Partnership for Children switched to an established MAC site January 2003 in order to resolve the finding of financial presentation. There is confidence that the net asset balances and prior year audit entries are posted. The Partnership is also taking control over coding to ensure correct coding at all times.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Other Current Year Findings and Recommendations - The following finding and recommendation was identified during the current audit and represents a significant deficiency in internal control.

2. INTERNAL CONTROL

Our review of the internal control structure of the Wilkes Partnership noted the following weaknesses:

- Current policies and procedures do not support the operations of the Partnership. Partnership practices either were not in accordance with the policies in place or the policies in place were not effective.
- Errors were noted with the authorizing and processing functions of the Partnership. Invoices were not consistently documented as authorized for payment. Processing procedures such as cancellation of paid invoices and verification of mathematical accuracy were not documented.

Weaknesses in the internal control system affect the Partnership's ability to achieve its goals and objectives and be accountable for its activities.

Recommendation: We recommend the Wilkes Partnership review the current policies and procedures and revise as necessary to support the operations of the Partnership. Consideration should be given to structuring job assignments that result in the proper segregation for the authorizing and processing of transactions.

Partnership's Response: Wilkes Community Partnership is revising their policy and procedure manual to match NCPC guidelines and recommendations. Stronger emphasis will be placed in administration to follow each policy in place once approved by the Board of Directors.

DISTRIBUTION OF AUDIT REPORT

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.

EXECUTIVE BRANCH

The Honorable Michael F. Easley
The Honorable Beverly M. Perdue
The Honorable Richard H. Moore
The Honorable Roy A. Cooper, III
Mr. David T. McCoy
Mr. Robert L. Powell
Ms. Carmen Hooker Odom
Mr. Ashley Thrift

Ms. Karen Ponder

Governor of North Carolina
Lieutenant Governor of North Carolina
State Treasurer
Attorney General
State Budget Officer
State Controller
Secretary, Department of Health and Human Services
Chairman, Board of Directors
North Carolina Partnership for Children, Inc.
Executive Director
North Carolina Partnership for Children, Inc.

LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

Senator Marc Basnight, Co-Chairman
Senator Charlie Albertson
Senator Kever M. Clark
Senator Daniel G. Clodfelter
Senator Walter H. Dalton
Senator James Forrester
Senator Linda Garrou
Senator Wilbur P. Gulley
Senator Kay R. Hagan
Senator David W. Hoyle
Senator Ellie Kinnaird
Senator Jeanne H. Lucas
Senator William N. Martin
Senator Stephen M. Metcalf
Senator Eric M. Reeves
Senator Larry Shaw
Senator R. C. Soles, Jr.
Senator David F. Weinstein

Representative James B. Black, Co-Chairman
Representative Richard T. Morgan, Co-Chairman
Representative Martha B. Alexander
Representative E. Nelson Cole
Representative James W. Crawford, Jr.
Representative William T. Culpepper, III
Representative W. Pete Cunningham
Representative Beverly M. Earle
Representative Stanley H. Fox
Representative R. Phillip Haire
Representative Dewey L. Hill
Representative Maggie Jeffus
Representative Edd Nye
Representative William C. Owens, Jr.
Representative Drew P. Saunders
Representative Wilma M. Sherrill
Representative Joe P. Tolson
Representative Thomas E. Wright
Representative Douglas Y. Yongue

Other Legislative Officials

Senator Anthony E. Rand
Senator Patrick J. Ballantine
Representative N. Leo Daughtry
Mr. James D. Johnson

Majority Leader of the N. C. Senate
Minority Leader of the N. C. Senate
N. C. House of Representatives
Director, Fiscal Research Division

August 11, 2003

ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647