

# STATE OF NORTH CAROLINA

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

ASHEVILLE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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

**ASHEVILLE, NORTH CAROLINA**

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

**BOARD OF DIRECTORS**

**JOYCE GREENE, BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**RONALD BRADFORD, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
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, Buncombe County Partnership for Children, Inc.

This report presents the results of our financial statement audit of the Buncombe County Partnership for Children, Inc. (Buncombe 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 Buncombe 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 Buncombe 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 Buncombe Partnership is one of these local partnerships. As such, the Buncombe 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** - 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 Buncombe Partnership's ability to record, process, summarize, and report financial data in the financial statements.

**Results** - The following significant deficiency was detected in internal control over financial reporting:

### **Finding**

#### Internal Control

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.

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.

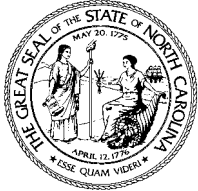


Ralph Campbell, Jr.  
State Auditor

# TABLE OF CONTENTS

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	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 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



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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Buncombe County Partnership for Children, Inc.  
Asheville, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Buncombe County Partnership for Children, Inc. (Buncombe 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 Buncombe 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 Buncombe 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 August 1, 2003 on our consideration of the Buncombe 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 Buncombe 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

August 1, 2003

**Buncombe 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		Total Funds
	Smart Start Fund	Other Funds	
<b>Receipts:</b>			
State Awards (less refunds of \$40,157)	\$ 2,281,006	\$ 62,564	\$ 2,343,570
Private Contributions		35,929	35,929
Interest and Investment Earnings		5,609	5,609
Sales Tax Refunds		2,371	2,371
Other Receipts		57,808	57,808
<b>Total Receipts</b>	<b>2,281,006</b>	<b>164,281</b>	<b>2,445,287</b>
<b>Expenditures:</b>			
Programs:			
Child Care and Education Quality	1,147,442	40,115	1,187,557
Child Care and Education Accessibility and Availability	188,176		188,176
Health and Safety	419,817		419,817
Family Support	156,999	8,532	165,531
More at Four	59,350	50,564	109,914
Support:			
Management and General	253,517	70,348	323,865
Program Evaluation/Coordination	23,000	680	23,680
Other:			
Sales Tax Paid		2,582	2,582
<b>Total Expenditures</b>	<b>2,248,301</b>	<b>172,821</b>	<b>2,421,122</b>
<b>Excess of Receipts Over Expenditures</b>	<b>32,705</b>	<b>(8,540)</b>	<b>24,165</b>
<b>Net Assets at Beginning of Year</b>	<b>40,157</b>	<b>27,163</b>	<b>67,320</b>
<b>Net Assets at End of Year</b>	<b>\$ 72,862</b>	<b>\$ 18,623</b>	<b>\$ 91,485</b>
<b>Net Assets Consisted of:</b>			
Cash and Cash Equivalents	\$ 55,762	\$ 15,687	\$ 71,449
Refunds Due From Contractors	17,100	2,936	20,036
	<b>\$ 72,862</b>	<b>\$ 18,623</b>	<b>\$ 91,485</b>
The accompanying notes to the financial statements are an integral part of this statement.			



**Buncombe County Partnership for Children, Inc.**  
**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	\$ 1,147,442							1,147,442	
Child Care and Education Accessibility and Availability	\$ 188,176							188,176	
Health and Safety	\$ 419,817							419,817	
Family Support	\$ 156,999		105,458					51,541	
More at Four	\$ 59,350			31,698				27,652	
	\$ 1,971,784	\$ 0	\$ 105,458	\$ 31,698	\$ 0	\$ 0	\$ 0	\$ 1,834,628	\$ 0
<b>Support:</b>									
Management and General	\$ 253,517	159,386	29,526	6,870	22,143	34,265	1,327		
Program Evaluation/Coordination	\$ 23,000	12,654	8,103		2,243				
	\$ 276,517	\$ 172,040	\$ 37,629	\$ 6,870	\$ 24,386	\$ 34,265	\$ 1,327	\$ 0	\$ 0
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 2,248,301</b>	<b>\$ 172,040</b>	<b>\$ 143,087</b>	<b>\$ 38,568</b>	<b>\$ 24,386</b>	<b>\$ 34,265</b>	<b>\$ 1,327</b>	<b>\$ 1,834,628</b>	<b>\$ 0</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 40,115		25,000				9,812	5,303	
Family Support	\$ 8,532			867	2,165			5,500	
More at Four	\$ 50,564							50,564	
	\$ 99,211	\$ 0	\$ 25,000	\$ 867	\$ 2,165	\$ 0	\$ 9,812	\$ 61,367	\$ 0
<b>Support:</b>									
Management and General	\$ 70,348	16,914	51,525	52	187		1,170	500	
Program Evaluation/Coordination	\$ 680		680						
	\$ 71,028	\$ 16,914	\$ 52,205	\$ 52	\$ 187	\$ 0	\$ 1,170	\$ 500	\$ 0
<b>Other:</b>									
Sales Tax Paid	\$ 2,582	\$ 0	\$ 0	\$ 2,582	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total Other Funds Expenditures</b>	<b>\$ 172,821</b>	<b>\$ 16,914</b>	<b>\$ 77,205</b>	<b>\$ 3,501</b>	<b>\$ 2,352</b>	<b>\$ 0</b>	<b>\$ 10,982</b>	<b>\$ 61,867</b>	<b>\$ 0</b>

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

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

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** - The Buncombe County Partnership for Children, Inc. (Buncombe Partnership) is a legally separate nonprofit organization incorporated on October 6, 1995. The Buncombe Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Buncombe 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 Buncombe 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 Buncombe 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, 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 consists of cash on deposit with private bank accounts, savings accounts, and money market accounts.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**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.

### NOTE 2 - DEPOSITS

All funds of the Buncombe 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 Buncombe Partnership to a concentration of credit risk. At June 30, 2002, the Buncombe Partnership's bank deposits in excess of the FDIC insured limit was \$48,430.

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Buncombe 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 Buncombe 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 Buncombe Partnership was awarded and has received \$2,321,163 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 \$72,362 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.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**More At Four** – The Buncombe Partnership also received revenue and support from the State of North Carolina for the More At Four Program. The Buncombe Partnership was awarded \$55,800 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new More at Four contracts with the State.

### NOTE 4 - RELATED PARTY TRANSACTIONS

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

#### A. Program Functions

**Child Care and Education Quality** - Used to account for service activities including quality enhancement grants for upgrades, professional development, child care substitutes, salary supplements, provider training, curriculum enhancements, community planning for school readiness, or health insurance benefits for child care providers.

**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 associated with part-day care programs.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Health and Safety** - Used to account for service activities including comprehensive dental services, child care health consultants/outreach nurses, or special needs – early intervention services.

**Family Support** - Used to account for service activities including general family support, literacy projects, family literacy, or community outreach.

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

### B. Support Functions

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

**Program Evaluation** – Evaluation expenditures 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. Coordination expenditures are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, there are costs associated with monitoring in-house and direct service provider activities

### 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	<u>\$ 15,435</u>

Rental expense for all operating leases during the year was \$26,425.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 7 - PENSION PLAN

**Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 403(b) Plan-** 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 plan is a defined contribution plan in which each employee of the Buncombe Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Buncombe Partnership contributed 8.5% of gross wages for the year ended June 30, 2002. 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. No costs are incurred by the Buncombe Partnership.

For the year ended June 30, 2002, the Buncombe Partnership contributed \$10,625 for retirement benefits during the year.

**Buncombe 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
Asheville City Schools *	177,715	(528)	23,250	(2,800)
Asheville-Buncombe Library System *	9,855			
Asheville-Buncombe Technical Community College *	431			
Black Mountain Family Resource Center	6,500			
Blue Ridge Center *	50,000			
Buncombe County Child Care Services *	220,663	(1,824)	7,000	(136)
Buncombe County Health Center *	380,000	(10,183)		
Center for Excellence in Early Childhood Education	26,175	(1,114)		
Emma Family Resource Center *	3,155			
Family Support Network of Western North Carolina			500	
Mount Zion Community Development, Inc.	1,406			
Orelena Hawks Puckett Institute	620,000	(400)		
The Health Adventure			5,000	
The Opportunity Corporation			23,250	
Various Day Care Providers	330,853	(3,051)	5,803	
WNC Community Health Services, Inc. *	5,625			
	<b>\$ 1,832,378</b>	<b>\$ (17,100)</b>	<b>\$ 64,803</b>	<b>\$ (2,936)</b>
<b>Individuals:</b>				
Child Care Appreciation Awards	<b>\$ 19,350</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
	<b>\$ 1,851,728</b>	<b>\$ (17,100)</b>	<b>\$ 64,803</b>	<b>\$ (2,936)</b>

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

***Buncombe 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
Buncombe County Department of Social Services	1,560,158		\$ 1,560,158
Child Care Services Association-WAGES Program	235,000		\$ 235,000
	<b>\$ 1,795,158</b>	<b>\$ 0</b>	<b>\$ 1,795,158</b>
* 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.			



***Buncombe County Partnership for Children, Inc.  
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 Year)	1-01-3-02-001	\$ (40,157)	\$ 0
Early Childhood Initiatives Program (Current Year)	* 1-12-3-02-001	2,321,163	2,248,301
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	2090002835	50,564	50,564
<b>Total State Awards</b>		<b>\$ 2,343,570</b>	<b>\$ 2,310,865</b>

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

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

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

***Schedule 4***

Furniture and Non-Computer Equipment	\$	10,056	
Computer Equipment/Printers		28,184	
Leasehold Improvements		3,246	
Total Property and Equipment	\$	<u>41,486</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>			

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

**Schedule 5**

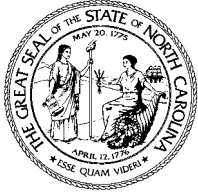
**Match Provided at the Partnership Level:**

Cash	\$ 35,929
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**Match Provided at the Contractor Level:**

Cash	\$ 286,569
In-Kind Goods and Services	223,118
	\$ 509,687

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  
Buncombe County Partnership for Children, Inc.  
Asheville, North Carolina

We have audited the financial statements of the Buncombe County Partnership for Children, Inc. (Buncombe Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated August 1, 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 Buncombe 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 Buncombe Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Buncombe 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)**

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management in the financial statements. This reportable condition noted as a result of our audit is described in the Audit Findings and Recommendations section of this report:

**Finding**

Internal Control

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

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

August 1, 2003

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **Matters Related to Financial Reporting**

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

#### INTERNAL CONTROL

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

- Partnership policies were not implemented as approved or did not effectively address certain key areas of the Partnership's operations.
- Errors were noted with the authorizing and processing functions of the Partnership. There was no consistent authorization for journal entries and documentation to support the justification for entries was deficient. In addition, the Partnership did not consistently maintain contracts related contractual service arrangements. We also noted processing errors with the verification of mathematical accuracy and the maintenance of supporting documentation.

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 Buncombe Partnership review the current policies and procedures and revise as necessary to support the operations of the Partnership. Emphasis should be placed on documenting the authorizing and processing of transactions, particularly those that change the original books of entry.

*Partnership's Response:* The Buncombe County Partnership for Children will review policies and procedures and will revise them to address and implement the changes necessary to support key operations. Emphasis will be placed on those policies and procedures that change the original books of entry.

Policies and procedures will address the processing, documentation, and approval of journal entries and the maintenance of documented contractual service arrangements. Procedures will also be implemented to address the verification of mathematical accuracy and the maintenance of supporting documentation.

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## **DISTRIBUTION OF AUDIT REPORT**

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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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The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
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Mr. Robert L. Powell	State Controller
Ms. Carmen Hooker Odom	Secretary, Department of Health and Human Services
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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