

# STATE OF NORTH CAROLINA

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

WILSON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

**STATE AUDITOR**

**FINANCIAL STATEMENT AUDIT REPORT OF**

**WILSON COUNTY PARTNERSHIP FOR CHILDREN**

**WILSON, NORTH CAROLINA**

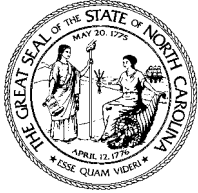
**FOR THE YEAR ENDED JUNE 30, 2002**

**BOARD OF DIRECTORS**

**FRANK E. EMORY, BOARD CHAIR**

**ADMINISTRATIVE OFFICER**

**BRUCE B. TINGLE, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

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Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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

This report presents the results of our financial statement audit of the Wilson County Partnership for Children (Wilson 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 Wilson 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 Wilson 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 Wilson Partnership is one of these local partnerships. As such, the Wilson 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 Wilson 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. Contract Management and Monitoring
2. Internal Control Procedures

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.

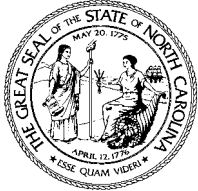


Ralph Campbell, Jr.  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT**

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Board of Directors  
Wilson County Partnership for Children  
Wilson, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Wilson County Partnership for Children (Wilson 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 Wilson 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 Wilson County Partnership for Children as of June 30, 2002, and the results of its operations for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2003 on our consideration of the Wilson 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 Wilson County Partnership for Children taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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



Ralph Campbell, Jr.  
State Auditor

June 6, 2003



**Wilson County Partnership for Children**

**Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis**

**For the Year Ended June 30, 2002**

**Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$58,616)	\$ 601,338	\$ 12,000	\$ 0	\$ 613,338
Private Contributions		50,608	25,000	75,608
Interest and Investment Earnings		2,085		2,085
Sales Tax Refunds		31,219		31,219
<b>Total Receipts</b>	<b>601,338</b>	<b>95,912</b>	<b>25,000</b>	<b>722,250</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	232,029	10,916		242,945
Health and Safety	49,110			49,110
Family Support	130,420			130,420
Support:				
Management and General	167,095	56,585		223,680
Program Coordination	51,900	932		52,832
Other:				
Sales Tax Paid		6,306		6,306
<b>Total Expenditures</b>	<b>630,554</b>	<b>74,739</b>		<b>705,293</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(29,216)</b>	<b>21,173</b>	<b>25,000</b>	<b>16,957</b>
<b>Net Assets at Beginning of Year</b>	<b>58,622</b>	<b>(20,940)</b>		<b>37,682</b>
<b>Net Assets at End of Year</b>	<b>\$ 29,406</b>	<b>\$ 233</b>	<b>\$ 25,000</b>	<b>\$ 54,639</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 27,722	\$ 233	\$ 25,000	\$ 52,955
Refunds Due From Contractors	1,684			1,684
	<b>\$ 29,406</b>	<b>\$ 233</b>	<b>\$ 25,000</b>	<b>\$ 54,639</b>

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

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

**Exhibit B**

	Total	Personnel	Contracted Services	Supplies and Materials	Other Operating Expenditures	Fixed Charges and Other Expenditures	Property and Equipment Outlay	Services/Contracts/Grants	Participant Training Expenditures
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 232,029	36,433	48,816	5,980	26,389	11,910	3,781	98,570	150
Health and Safety	\$ 49,110							49,110	
Family Support	\$ 130,420							130,420	
	\$ 411,559	\$ 36,433	\$ 48,816	\$ 5,980	\$ 26,389	\$ 11,910	\$ 3,781	\$ 278,100	\$ 150
<b>Support:</b>									
Management and General	\$ 167,095	65,013	76,870	4,906	16,794	2,712	800		
Program Coordination	\$ 51,900	21,400	20,147	677	6,720	2,127	829		
	\$ 218,995	\$ 86,413	\$ 97,017	\$ 5,583	\$ 23,514	\$ 4,839	\$ 1,629	\$ 0	\$ 0
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 630,554</b>	<b>\$ 122,846</b>	<b>\$ 145,833</b>	<b>\$ 11,563</b>	<b>\$ 49,903</b>	<b>\$ 16,749</b>	<b>\$ 5,410</b>	<b>\$ 278,100</b>	<b>\$ 150</b>
<b>Other Funds:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 10,916	\$ 0	\$ 0	\$ 5,145	\$ 0	\$ 0	\$ 1,250	\$ 4,521	\$ 0
<b>Support:</b>									
Management and General	\$ 56,585		13,554	5	3,399	107	39,520		
Program Coordination	\$ 932			932					
	\$ 57,517	\$ 0	\$ 13,554	\$ 937	\$ 3,399	\$ 107	\$ 39,520	\$ 0	\$ 0
<b>Other:</b>									
Sales Tax Paid	\$ 6,306	\$ 0	\$ 0	\$ 6,306	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<b>Total Other Funds Expenditures</b>	<b>\$ 74,739</b>	<b>\$ 0</b>	<b>\$ 13,554</b>	<b>\$ 12,388</b>	<b>\$ 3,399</b>	<b>\$ 107</b>	<b>\$ 40,770</b>	<b>\$ 4,521</b>	<b>\$ 0</b>

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

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

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Organization and Purpose** - The Wilson County Partnership for Children (Wilson Partnership) is a legally separate nonprofit organization incorporated on October 11, 1994. The Wilson Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Wilson 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 Wilson 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 Wilson 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)

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However, unexpended advances to contractors that revert back to the State are recognized as a reduction to expenditures and an increase to net assets.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Regulatory Basis and consists of cash on deposit with private bank accounts and money market accounts.
- E. Refunds Due From Contractors** - Refunds due from contractors represent the unexpended amount of advances to contractors at year-end that are to be refunded back to the State. As recoveries are collected, the receivable balance is reduced. Payments to the State for the recovered advances are recorded as a reduction to the State awards balance.
- F. Use of Estimates** - The financial statements include estimates and assumptions made by management for the allocation of joint costs. It is management's belief that these estimates are reasonable and fair.

### NOTE 2 - DEPOSITS

All funds of the Wilson 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 Wilson Partnership to a concentration of credit risk. At June 30, 2002, the Wilson Partnership's bank deposits in excess of the FDIC insured limit was \$63,903.

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

Associated with these contracts, the Wilson 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, NCPC and the Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Wilson Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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provider contracts entered into by NCPC and DHHS are presented on Schedule 2 accompanying the financial statements.

The Wilson Partnership was awarded and has received \$659,954 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 \$28,997 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2002.

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

### NOTE 4 - RELATED PARTY TRANSACTIONS

**Service Provider Contracts with Board Member Organizations** - The board members of the Wilson Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Wilson 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 NCPC and DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

### NOTE 5 - FUNCTIONAL EXPENDITURES

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

#### A. Program Functions

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

**Health and Safety** - Used to account for service activities associated with child abuse and neglect intervention.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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**Family Support** - Used to account for service activities associated with teen parent/child programs.

### 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 Coordination** - Expenditures that are incurred to coordinate the policies, procedures, and daily practices of service delivery. Also, costs associated with monitoring in-house and direct service provider activities.

### C. Allocation of Joint Costs

Expenditures benefiting more than one purpose were allocated as follows:

**Salaries and Benefits** - Allocated based on employee time reports.

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

### 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	\$ 5,007
2004	3,036
2005	3,036
2006	3,036
2007	2,357
<b>Total Minimum Lease Payments</b>	<b>\$ 16,472</b>

Rental expense for all operating leases during the year was \$3,478.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 7 - PENSION PLAN

- A. Retirement Plans** - The Wilson Partnership had a Simplified Employee Pension (SEP) plan covering all full-time employees for the period ending December 2001. Each full-time employee of the Wilson Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Wilson Partnership contributed 6.81% of gross wages for the period ended December 31, 2001. The Wilson Partnership does not own the accounts nor is liable for any other cost other than the required contribution. The Partnership contributed \$5,183 for pension benefits during the year.
- B. IRC Section 403(b) Plan** - All employees 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 Wilson Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Wilson Partnership contributed 6.81% of gross wages for the period January 1, through 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 Wilson Partnership.

For the year ended June 30, 2002, the Wilson Partnership contributed \$7,493 for retirement benefits during the year. The voluntary contributions by employees amounted to \$1,710 during the year ended June 30, 2002.

### NOTE 8 - RESTRICTIONS ON NET ASSETS

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

Purpose	Amount
BB&T – Renovations and Dental Clinic	\$ 25,000

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

*Schedule 1*

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Beddingfield	745			
Daniel's Elementary			4,521	
Faith, Hope, and Charity	2,246			
Hattie Daniel's Day Care Center	* 17,859			
Kiddie Care Day Care Home	* 2,447			
Kidstown Child Care and Learning Center	7,724			
Martha Roundtree Center	3,023			
Positive Change for Youth	59,852	(1,000)		
Science Museums of Wilson	49,108			
Wesley Shelter	131,104	(684)		
	<b>\$ 274,108</b>	<b>\$ (1,684)</b>	<b>\$ 4,521</b>	<b>\$ 0</b>
<i>Individuals:</i>				
T.E.A.C.H. Program Payments	5,676			
	<b>\$ 5,676</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
	<b>\$ 279,784</b>	<b>\$ (1,684)</b>	<b>\$ 4,521</b>	<b>\$ 0</b>

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



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

***Schedule 2***

<b>Organization Name</b>	<b>DHHS Contracts</b>	<b>NCPC Contracts</b>	<b>Total Contracts</b>
Child Care Services Association - WAGES Program	152,707		<b>\$ 152,707</b>
National Society to Prevent Blindness - NC		23,500	<b>\$ 23,500</b>
North Carolina State University		70,000	<b>\$ 70,000</b>
Wilson County Department of Social Services *	1,120,829		<b>\$ 1,120,829</b>
	<b>\$ 1,273,536</b>	<b>\$ 93,500</b>	<b>\$ 1,367,036</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.

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

***Schedule 3***

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
<b>State Awards:</b>			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	Various	\$ (58,616)	\$ (20)
Early Childhood Initiatives Program (Current Year)	* #1-12-3-11-001	659,954	630,574
Multi-County Accounting and Contracting Grant	N/A	12,000	12,000
<b>Total State Awards</b>		<b>\$ 613,338</b>	<b>\$ 642,554</b>
* Programs with compliance requirements that have a direct and material effect on the financial statements.			

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

***Schedule 4***

	Furniture and Non-Computer Equipment	\$	38,409
	Computer Equipment/Printers		21,220
	Buildings		133,995
	Leasehold Improvements		43,335
	Total Property and Equipment	\$	<u>236,959</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.		

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

**Schedule 5**

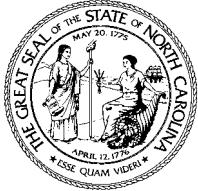
*Match Provided at the Partnership Level:*

Cash	\$ 75,173
In-Kind Goods and Services	13,999
	<u>\$ 89,172</u>

*Match Provided at the Contractor Level:*

Cash	\$ 196,418
In-Kind Goods and Services	27,244
	<u>\$ 223,662</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.



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  
Wilson County Partnership for Children  
Wilson, North Carolina

We have audited the financial statements of the Wilson County Partnership for Children (Wilson Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated June 6, 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 Wilson 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 Wilson 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 Wilson 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. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

**Finding**

1. Contract Management and Monitoring
2. Internal Control Procedures

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

June 6, 2003

## AUDIT FINDINGS AND RECOMMENDATIONS

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*Current Year Findings and Recommendations Also Reported in Prior Audit* - The following findings and recommendations were identified during the current and prior audit and represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, or grants.

### 1. CONTRACT MANAGEMENT AND MONITORING

We reported in the previous two years that the Wilson Partnership did not have an adequate contract management and monitoring system in place. Weaknesses have included inadequate contract agreements, particularly for quality enhancement grants, and limited evidence to support the monitoring of contract activities.

*This finding is unresolved.* We continued to identify issues related to the quality enhancement grant activities. We noted instances where the Partnership failed to verify recipient eligibility criteria prior to making payments, did not obtain evidence to support the receipt of goods, and documentation to support monitoring of providers was not consistent or available. In addition, we were unable to determine from the documentation available if three centers that received funding met the eligibility criteria to receive grants during the 2002 fiscal year. Therefore, costs totaling \$7,716 associated with these centers will be questioned based upon the guidelines issued by the North Carolina Partnership for Children, Inc.

*Recommendation:* We recommend that the Wilson Partnership immediately take appropriate actions to enhance its quality enhancement grant procedures. Emphasis should be placed on obtaining appropriate documentation to support grant payments, compliance with applicable legislation and grant guidelines, and documenting monitoring visits to ensure compliance with contractual requirements. Also, the Wilson Partnership should consult with the North Carolina Partnership for Children, Inc. for the resolution of the above-identified questioned costs.

*Partnership's Response:* The Wilson County Partnership for Children was participating in the Local Partnership Improvement Plan for the 2002/2003 fiscal year. As a condition of our participation, we were restricted from utilizing any State funds for Quality Enhancement Grant activities until a comprehensive Accounting and Contracts Procedures Manual was developed. The procedures manual has a section devoted to Quality Enhancement Grant Activities and a comprehensive checklist to ensure compliance. Upon completion, the Accounting and Contracts Procedures manual was adopted by the local partnership board on April 23, 2003. Since the adoption of the section concerning Quality Enhancement Grants was so late in the fiscal year and subsequent staff turnover, the partnership did not award any Quality Enhancement Grants for the 2002/2003 fiscal year.

## AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

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### 2. INTERNAL CONTROL PROCEDURES

We reported in the previous year that the Wilson Partnership did not have adequate policies and procedures resulting in an inadequate segregation of duties over the cash receipting process and processing errors related to purchase orders, authorization for transactions, and payments not supported by original documentation.

*This finding is partially resolved.* The Partnership adopted policies and procedures and implemented changes to the cash receipts process that provided for an appropriate segregation of duties. However, our testwork continued to identify errors with the purchase order process, authorization for transactions, documentation to support the receipt of goods, and evidence of the recalculation of invoices.

*Recommendation:* We recommend that the Wilson Partnership implement procedures to address the processing of disbursement transactions. Specific emphasis should be placed on obtaining adequate documentation to support the purchasing, authorizing, and payment for goods and services.

*Partnership's Response:* The Wilson County Partnership for Children has incorporated procedures for petty cash, purchase orders and accounts payable in its' Accounting Policies and Procedures Manual. This Manual was adopted by the Board of Directors on April 23, 2003. There is an Accounts Payable Review Checklist that will incorporate all necessary functions to address the processing of disbursement transactions.



## 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.

### EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
Mr. David T. McCoy	State Budget Officer
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.

### LEGISLATIVE BRANCH

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Senator Patrick J. Ballantine	Minority Leader of the N. C. Senate
Representative N. Leo Daughtry	N. C. House of Representatives
Mr. James D. Johnson	Director, Fiscal Research Division

September 2, 2003

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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