



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
WAYNE COUNTY PARTNERSHIP FOR CHILDREN
GOLDSBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2002

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

WAYNE COUNTY PARTNERSHIP FOR CHILDREN

GOLDSBORO, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2002

BOARD OF DIRECTORS

HOWARD SCOTT, BOARD CHAIR

ADMINISTRATIVE OFFICER

DR. ANN H. STEPHENS, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

This report presents the results of our financial statement audit of the Wayne County Partnership for Children (Wayne Partnership) for the year ended June 30, 2002. Our audit was made by authority of Article 5A of G.S. §147.

The accounts and operations of the Wayne 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 Wayne Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by G.S. 143B-168.10-.16. This statute created the North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Wayne Partnership is one of these local partnerships. As such, the Wayne Partnership is a private nonprofit 501(c)(3) organization and is required by G.S. 143B-168.14(b) to have an annual financial and compliance audit conducted by the State Auditor.

The purpose of this report is to present the results of our audit on the accompanying financial statements. A summary of our reporting objectives and audit results are:

- 1. Objective** - Express an opinion on the accompanying financial statements and supplementary information.

Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the regulatory basis of accounting established by the North Carolina Partnership for Children, Inc. The accompanying supplementary information presents information that is fairly stated in all material respects in relation to the basic financial statements.

AUDITOR'S TRANSMITTAL (CONCLUDED)

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

Results - Our tests disclosed no instances of noncompliance that require disclosure herein under *Government Auditing Standards*.

3. **Objective** - Present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Wayne 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

Contract Management/Monitoring

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

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Ralph Campbell, Jr.
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Wayne County Partnership for Children
Goldsboro, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets - Regulatory Basis of the Wayne County Partnership for Children (Wayne 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 Wayne 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 Wayne 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 October 10, 2002 on our consideration of the Wayne 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 Wayne 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

October 10, 2002

Wayne 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		
Receipts:				
State Awards (less refunds of \$13,617)	\$ 1,326,413	\$ 115,703	\$ 0	\$ 1,442,116
Private Contributions		4,226	10,000	14,226
Interest and Investment Earnings		1,499		1,499
Sales Tax Refunds		18,340		18,340
Other Receipts		3,880		3,880
Total Receipts	1,326,413	143,648	10,000	1,480,061
Net Assets Released from Restrictions:				
Expiration of Time Restrictions		10,701	(10,701)	
	1,326,413	154,349	(701)	1,480,061
Expenditures:				
Programs:				
Child Care and Education Quality	334,931	11,201		346,132
Child Care and Education Affordability	220,862			220,862
Health and Safety	180,698			180,698
Family Support	238,786			238,786
More at Four	20,386	103,340		123,726
Support:				
Management and General	199,776	12,492		212,268
Program Coordination	82,127	6,678		88,805
Other:				
Sales Tax Paid		3,059		3,059
Refund of Prior Year Grant		10,701		10,701
Total Expenditures	1,277,566	147,471		1,425,037
Excess of Receipts Over Expenditures	48,847	6,878	(701)	55,024
Net Assets at Beginning of Year	13,765	3,239	10,701	27,705
Net Assets at End of Year	\$ 62,612	\$ 10,117	\$ 10,000	\$ 82,729
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 56,031	\$ 9,754	\$ 10,000	\$ 75,785
Refunds Due From Contractors	6,581	363		6,944
	\$ 62,612	\$ 10,117	\$ 10,000	\$ 82,729

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

*Wayne 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
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 334,931	226,181	5,198	13,629	23,370	12,964	6,153	42,069	5,367
Child Care and Education Affordability	\$ 220,862							220,862	
Health and Safety	\$ 180,698							180,698	
Family Support	\$ 238,786							238,786	
More at Four	\$ 20,386							20,386	
	\$ 995,663	\$ 226,181	\$ 5,198	\$ 13,629	\$ 23,370	\$ 12,964	\$ 6,153	\$ 702,801	\$ 5,367
Support:									
Management and General	\$ 199,776	152,444	4,548	10,826	16,610	12,207	3,141		
Program Coordination	\$ 82,127	56,856	17,743	1,499	5,106	285	638		
	\$ 281,903	\$ 209,300	\$ 22,291	\$ 12,325	\$ 21,716	\$ 12,492	\$ 3,779	\$ 0	\$ 0
Total Smart Start Fund Expenditures	#####	\$ 435,481	\$ 27,489	\$ 25,954	\$ 45,086	\$ 25,456	\$ 9,932	\$ 702,801	\$ 5,367
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 11,201			8,612	500			2,089	
More at Four	\$ 103,340							103,340	
	\$ 114,541	\$ 0	\$ 0	\$ 8,612	\$ 500	\$ 0	\$ 0	\$ 105,429	\$ 0
Support:									
Management and General	\$ 12,492		12,180	78					234
Program Coordination	\$ 6,678			6,678					
	\$ 19,170	\$ 0	\$ 12,180	\$ 6,756	\$ 0	\$ 0	\$ 0	\$ 0	\$ 234
Other:									
Sales Tax Paid	\$ 3,059			3,059					
Refund of Prior Year Grant	\$ 10,701					10,701			
	\$ 13,760	\$ 0	\$ 0	\$ 3,059	\$ 0	\$ 10,701	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 147,471	\$ 0	\$ 12,180	\$ 18,427	\$ 500	\$ 10,701	\$ 0	\$ 105,429	\$ 234

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Wayne County Partnership for Children (Wayne Partnership) is a legally separate nonprofit organization incorporated on September 12, 1997. The Wayne Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Wayne 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 Wayne 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 Wayne 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 STATEMENT (CONTINUED)

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 petty cash, cash on deposit with private bank accounts, and money market funds.
- 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 Wayne 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 Wayne Partnership to a concentration of credit risk.

The Wayne Partnership has a Commercial Checking & Financial Management Account. Funds over an established target amount of \$22,500 are transferred from the Commercial Checking Account to the Money Market Savings Investment Account each night in order for the Wayne Partnership to earn interest on its money. These funds are subject to the same credit risk as identified above.

NOTE 3 - FUNDING FROM GRANT AWARDS

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

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

Associated with these contracts, the Wayne 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 Wayne 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 Wayne Partnership was awarded and has received \$1,340,030 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 \$62,611 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.

More At Four – The Wayne Partnership also received revenue and support from the State of North Carolina for the More At Four Pre-Kindergarten Program. The Wayne Partnership was awarded \$132,300 and has received \$103,703 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Partnership has returned \$363 of this contract to the State based on financial status reports submitted to More at Four subsequent to June 30, 2002.

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 Wayne Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Wayne 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.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

NOTE 5 - FUNCTIONAL EXPENDITURES

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

A. Program Functions

Child Care and Education Quality - Used to account for service activities including quality enhancement grants for upgrades, child care resource and referral, professional development, salary supplements, community planning for school readiness, and health insurance benefits for child care providers.

Child Care and Education Affordability - Used to account for service activities including child care subsidy administration (DCD), public pre-K classes, Head Start wraparound, and child care cost supports (DCD).

Health and Safety - Used to account for service activities including prenatal/newborn services and child care health consultants/outreach nurses.

Family Support - Used to account for service activities including parenting education and skills training, ongoing parenting education, intensive home visiting, literacy projects, and community outreach.

More at Four – Used to account for development and implementation of the More at Four pre-kindergarten program for four-year-olds who are at risk of failure in kindergarten. The goal is to provide quality pre-kindergarten 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.

NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

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 estimates of utilization or 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	<u>\$ 1,512</u>

Rental expense for all operating leases during the year was \$8,879.

NOTE 7 - PENSION PLAN

A. Retirement Plans - The Wayne Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Wayne Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Wayne Partnership contributed 5% of gross wages for the year ended June 30, 2002. The Wayne Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

For the year ended June 30, 2002, the Wayne Partnership had a total payroll of \$354,777, all of which was covered under the plan. The Partnership contributed \$17,630 for pension benefits during the year.

NOTES TO THE FINANCIAL STATEMENT (CONCLUDED)

B. 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 employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other non-profit organizations. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the Wayne Partnership. The voluntary contributions by employees amounted to \$10,990 during the year ended June 30, 2002.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Commitments on Contracts - The Wayne Partnership had outstanding commitments of \$2,250 on cost-reimbursement contracts that had not been paid at June 30, 2002.

NOTE 9 - RESTRICTIONS ON NET ASSETS

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

Purpose	Amount
Mount Olive Scholarship Program	\$ 10,000

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2002, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Quality Enhancement Provider Match	\$ 10,701

*Wayne 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
Ms. Dee's Child Care Home	960			
North Carolina Cooperative Extension, Wayne County Center	* 113,485	(2,609)		
Small World	21,185	(799)	18,834	
Star Light Day Care	925			
The Mental Health Association in Wayne County	10,960			
Various Day Care Centers			2,089	
Visions Developmental Learning Center	5,221			
Wayne Action Group for Economic Solvency, Inc. (WAGES)	* 124,088	(609)	44,217	(363)
Wayne Community College	* 58,563			
Wayne County Health Department	* 226,970	(2,355)		
Wayne County Public Library, Inc.	* 20,917	(209)		
Wayne County Public Schools	* 122,348		40,652	
Wayne Uplift Resources Association, Inc.	3,760			
	\$ 709,382	\$ (6,581)	\$ 105,792	\$ (363)

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

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

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGES Program	114,761
Wayne County Department of Social Services	898,009
	\$ 1,012,770
<p>* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations</p>	
<p>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</p>	

**Wayne 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
State Awards:			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	#1-90-5-34-001	\$ 0	\$ (39)
Early Childhood Initiatives Program (Prior Year)	#1-01-5-34-001	(13,617)	(100)
Early Childhood Initiatives Program (Current Year)	#1-12-5-34-001 *	1,340,030	1,277,705
Multi-County Accounting and Contract Grant (Current Year)	N/A	12,000	12,000
North Carolina Department of Health and Human Services			
More at Four Pre-Kindergarten Program	#2090002848 *	\$ 103,703	\$ 103,340
Total State Awards		\$ 1,442,116	\$ 1,392,906

* 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.

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

Schedule 4

	Furniture and Non-Computer Equipment	\$	21,468
	Computer Equipment/Printers		46,564
	Buildings		517,171
	Total Property and Equipment	\$	<u>585,203</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.		

**Wayne 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	\$ 14,226
In-Kind Goods and Services	21,345
	<u>\$ 35,571</u>

Match Provided at the Contractor Level:

Cash	\$ 274,115
In-Kind Goods and Services	98,513
	<u>\$ 372,628</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 1999-237, Section 11.48(l). The law allows for volunteer services to be valued for match purposes, a concept that deviates from generally accepted accounting principles.

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Ralph Campbell, Jr.
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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Wayne County Partnership for Children
Goldsboro, North Carolina

We have audited the financial statements of the Wayne County Partnership for Children (Wayne Partnership) as of and for the year ended June 30, 2002, and have issued our report thereon dated October 10, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Wayne 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 Wayne 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 Wayne Partnership's ability to

**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)**

record, process, summarize and report financial data consistent with the assertions of 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

Contract Management/Monitoring

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

October 10, 2002

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.

CONTRACT MANAGEMENT/MONITORING

Prior year audits have identified weaknesses in the Wayne Partnership's contract management/monitoring system including:

- Payments made without proper grant agreements, outside the grant period, or without proper authorization.
- Inadequate tracking of grant activities such that funding could be identified to specific grant recipients within the accounting system.
- Insufficient documentation to support monitoring activities.

This finding is partially resolved. Improvements were noted with the Partnership's contract management system related to the payment and tracking of contract activities. However, we continued to note issues with contract monitoring. Documentation was insufficient to support fiscal monitoring activities. In addition, documentation obtained to support programmatic monitoring activities was not in accordance with the Partnership's policies and procedures.

Recommendation: We recommend that the Wayne Partnership enhance its contract monitoring responsibilities by ensuring that adequate documentation is maintained to support monitoring activities in compliance with implemented policies and procedures.

Partnership's Response: The Wayne County Partnership will strengthen its contract management and monitoring system dramatically with documented evidence in place by the end of the 2002-2003 fiscal year. Effective December 1, 2002, organizational changes will be implemented, which will allow full time deployment of resources focused on fiscal and programmatic monitoring. The reorganization will allow for continued services with no reductions in activities or benefits to our funded program recipients. The changes we are planning should also allow us to do some added evaluation of the Partnership's effectiveness at achieving our Performance Based Incentive System objectives.

The resource dedicated to program and fiscal monitoring will first be charged with the task of developing an audit checklist for the state, NCPC, and Partnership requirements for all activities. Next, a contract, grant and Memorandum of Understanding review for each activity will be conducted and a detailed audit checklist will be developed at this level as well. Finally, the dedicated resource will determine audit frequency based on value of the

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

contract or grant and our past experience, accountability and outcomes of the provider. Based on this determination, we will establish an annual audit schedule to ensure that all providers and activities are audited at least annually, with additional audits where we deem it appropriate.

All Partnership resources have already been trained to document all review activities, mathematical verifications, and other monitoring actions conducted at the Partnership. Directors are approving payments to DSP's after thorough review of the documentation.

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November 18, 2002

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