



STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF COMMUNITIES IN SCHOOLS OF CALDWELL COUNTY

LENOIR, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF
COMMUNITIES IN SCHOOLS OF CALDWELL COUNTY**

LENOIR, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

ALVIN W. DAUGHTRIDGE , CHAIRMAN

ADMINISTRATIVE OFFICERS

**CARLA D. PATTERSON, EXECUTIVE DIRECTOR (SMART START)
AMY JO HAMRICK, EXECUTIVE DIRECTOR (COMMUNITIES IN SCHOOLS)**



Ralph Campbell, Jr.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Directors, Communities in Schools of Caldwell County

This report presents the results of our financial statement audit of the Communities in Schools of Caldwell County (CIS of Caldwell County) for the year ended June 30, 2003. Our audit was made by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The accounts and operations of the CIS of Caldwell County 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 CIS of Caldwell County 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 CIS of Caldwell County is one of these local partnerships. As such, the CIS of Caldwell County is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the Office of 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.

Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the modified cash basis of accounting, a comprehensive basis of accounting other than generally accepted accounting principles.

AUDITOR'S TRANSMITTAL (CONCLUDED)

2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the CIS of Caldwell County's ability to record, process, summarize, and report financial data in the financial statements and present instances of noncompliance, if any, with laws, regulations, contracts, or grants.

Results - The following conditions represent significant deficiencies in internal control.

Finding

1. Accounting System
2. Internal Control

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

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
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STATE OF NORTH CAROLINA
Office of the State Auditor

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Communities in Schools of Caldwell County
Lenoir, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Communities in Schools of Caldwell County (CIS of Caldwell County) as of June 30, 2003, and the related Statement of Functional Expenditures – Modified Cash Basis for the year then ended. These financial statements are the responsibility of the CIS of Caldwell County'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 modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the Communities in Schools of Caldwell County as of June 30, 2003, and the results of its operations arising from modified cash basis transactions 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 31, 2003 on our consideration of the CIS of Caldwell County'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 Communities in Schools of Caldwell County 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 Schedules 1, 3, 4, and 5 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. The information in Schedule 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on Schedule 2.

This report is intended solely for the information and use of the management of the CIS of Caldwell County, 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 31, 2003

Communities in Schools of Caldwell County**Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis****For the Year Ended June 30, 2003****Exhibit A**

	Unrestricted Funds			Total Funds
	Communities in Schools	Smart Start Fund	Other Funds	
Receipts:				
State Awards (less refunds of \$18,723)	\$ 20,399	\$ 1,726,550	\$ 114,650	\$ 1,861,599
Federal Awards	4,723		290,360	295,083
Local Awards	25,344			25,344
Private Contributions	40,928		38	40,966
Interest and Investment Earnings	93		480	573
Sales Tax Refunds			2,040	2,040
Other Receipts			5,155	5,155
Total Receipts	91,487	1,726,550	412,723	2,230,760
Expenditures:				
Programs:				
Child Care and Education Quality		864,441		864,441
Child Care and Education Affordability		73,659		73,659
Communities in Schools	33,573			33,573
Health and Safety		168,429		168,429
Early Learning Opportunity Act			281,966	281,966
Family Support		419,232	7,770	427,002
More at Four		7,311	102,075	109,386
Support:				
Management and General	63,767	152,656	18,017	234,440
Other:				
Sales Tax Paid			3,223	3,223
Total Expenditures	97,340	1,685,728	413,051	2,196,119
Excess of Receipts Over Expenditures	(5,853)	40,822	(328)	34,641
Net Assets at Beginning of Year	44,573	18,723	13,902	77,198
Net Assets at End of Year	\$ 38,720	\$ 59,545	\$ 13,574	\$ 111,839
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 38,720	\$ 7,340	\$ 13,574	\$ 59,634
Refunds Due From Contractors		52,205		52,205
	\$ 38,720	\$ 59,545	\$ 13,574	\$ 111,839

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

Communities in Schools of Caldwell County
Statement of Functional Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003

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
Communities in Schools Fund									
Programs:									
Communities in Schools	\$ 33,573		11,391		2,178			20,004	
Support:									
Management and General	\$ 63,767	39,138	2,913	1,148	13,351	4,129			3,088
Total Communities in Schools Expenditures	\$ 97,340	\$ 39,138	\$ 14,304	\$ 1,148	\$ 15,529	\$ 4,129	\$ 0	\$ 20,004	\$ 3,088
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 864,441	32,452	15,418		111			816,460	
Child Care and Education Affordability	\$ 73,659							73,659	
Health and Safety	\$ 168,429							168,429	
Family Support	\$ 419,232							419,232	
More at Four	\$ 7,311		5,644	542	155		970		
	\$ 1,533,072	\$ 32,452	\$ 21,062	\$ 542	\$ 266	\$ 0	\$ 970	\$ 1,477,780	\$ 0
Support:									
Management and General	\$ 152,656	\$ 81,690	\$ 30,738	\$ 3,434	\$ 14,722	\$ 20,133	\$ 1,939	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 1,685,728	\$ 114,142	\$ 51,800	\$ 3,976	\$ 14,988	\$ 20,133	\$ 2,909	\$ 1,477,780	\$ 0
Other Funds:									
Programs:									
Early Learning Opportunity Act	\$ 281,966	6,094	20,202	30,465	2,507		126,139	96,559	
Family Support	\$ 7,770		1,227	4,302	566				1,675
More at Four	\$ 102,075		540					101,535	
	\$ 391,811	\$ 6,094	\$ 21,969	\$ 34,767	\$ 3,073	\$ 0	\$ 126,139	\$ 198,094	\$ 1,675
Support:									
Management and General	\$ 18,017	\$ 621	\$ 13,898	\$ 940	\$ 2,298	\$ 260	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 3,223	\$ 0	\$ 0	\$ 3,223	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 413,051	\$ 6,715	\$ 35,867	\$ 38,930	\$ 5,371	\$ 260	\$ 126,139	\$ 198,094	\$ 1,675

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

COMMUNITIES IN SCHOOLS OF CALDWELL COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Communities in Schools of Caldwell County (CIS of Caldwell County) is a legally separate nonprofit organization incorporated on January 19, 1989. The CIS of Caldwell County was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The CIS of Caldwell County 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 CIS of Caldwell County’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 CIS of Caldwell County did not have any temporarily or permanently restricted net assets at June 30, 2003.

- C. Basis of Accounting** - The accompanying financial statements were prepared on the modified cash basis of accounting. This basis differs from accounting principles generally accepted in the United States of America 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. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

D. Cash and Cash Equivalents – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and consists of petty cash, 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.

NOTE 2 - DEPOSITS

All funds of the CIS of Caldwell County are deposited with commercial banks and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000 per bank. Deposits over this amount subjects the CIS of Caldwell County to a concentration of credit risk.

The CIS of Caldwell County has an Automated Investment Plan to invest excess balances over an established target amount. The investment is in the bank's money market securities and is not insured by the FDIC. Consequently, the CIS of Caldwell County bank deposits in excess of the FDIC insured limit totaled \$70,278 at June 30, 2003.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The CIS of Caldwell County'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 CIS of Caldwell County and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the CIS of Caldwell County is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the CIS of Caldwell County. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The CIS of Caldwell County was awarded and has received \$1,745,273 under a current year Smart Start contract with NCPC. The unexpended balance of this contract is subject to reversion to the State. The CIS of Caldwell County has returned \$59,545 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2003.

The CIS of Caldwell County expects to receive continued funding through new Smart Start contracts with the State.

More at Four – The CIS of Caldwell County also received revenue and support from the State of North Carolina for the More at Four Program. The CIS of Caldwell County was awarded \$129,600 and has received \$102,650 of this amount under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The CIS of Caldwell County expects to receive continued funding through new More at Four contracts with the State.

Early Learning Opportunities Act Discretionary Grant Program - The CIS of Caldwell County received a federal assistance award from the U. S. Department of Health and Human Services – Administration for Children and Families. The award is based on a cost-reimbursement contract issued through the Early Learning Opportunities Act Discretionary Grant Program.

In the current year, the CIS of Caldwell County received \$283,360. The CIS of Caldwell County expects to receive continued funding through the Early Learning Opportunities Act Discretionary Grant Program from the Administration for Children and Families until February 28, 2004.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the CIS of Caldwell County are representative of various organizations that benefit from actions taken by the Board. It is the policy of the CIS of Caldwell County that board members not be involved with decisions regarding organizations they represent. During the year, the CIS of Caldwell County 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 CIS of Caldwell County's Smart Start Allocation.

NOTES TO THE FINANCIAL STATEMENTS (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 – Modified Cash Basis. Also, the Statement of Functional Expenditures – Modified Cash 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, quality enhancement grants for maintenance, child care resource and referral, professional development, child care substitutes, salary supplements, behavior intervention, or health insurance benefits for child care providers.

Child Care and Education Affordability - Used to account for service activities including transportation to child care or part day care programs.

Communities in Schools – Used to account for service activities for at-risk youth in Caldwell County and to their families through the supportive environment of the public schools or alternate educational sites. The objective of the program is to reduce the number of school dropouts in Caldwell County.

Early Learning Opportunities Act Discretionary Grant Program - Used to increase child readiness for school, improve successful transition to school, increase communications between teachers and families, increase knowledge of school readiness attributes and strategies, increase the education level for preschool teachers, and increase parent and child care teacher engagement in reading and other early literacy activities with children, including infants and toddlers.

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

Family Support - Used to account for service activities including family resource centers, teen parent/child programs, ongoing parenting education, support services for children and families in crisis, or literacy projects.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

NOTE 6 - PENSION PLAN

Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 401(k) Plan – The CIS of Caldwell County has an IRC Section 401(k) plan (Plan) covering all full-time employees. All costs of administering the plan are the responsibility of the plan. The CIS of Caldwell County contributed up to 50% of all employee contributions up to 3% of their annual salary. Employees may make voluntary contributions to the Plan. For the year ended June 30, 2003, the CIS of Caldwell County contributed \$2,317.

NOTE 7 - RISK MANAGEMENT

The CIS of Caldwell County is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters. The CIS of Caldwell County manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Torts, errors and omissions, health and life	Purchased commercial insurance	None
Workers Compensation – Employee injuries	Purchased commercial insurance	None
Physical property loss and natural disasters	Purchased commercial insurance	None

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

Management believes such coverage is sufficient to preclude any significant losses to the CIS of Caldwell County. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Commitments on Contracts - The CIS of Caldwell County had outstanding commitments of \$376,674 on cost-reimbursement contracts that had not been paid at June 30, 2003.

*Communities in Schools of Caldwell County
Schedule of Contract and Grant Expenditures - Modified Cash Basis
For the Year Ended June 30, 2003*

Schedule 1

Organization Name	Smart Start Fund		Other Funds	
	Amount Advanced	Refund Due	Amount Advanced	Refund Due
Bernhardt Creative Beginnings *			27,200	
Blue Ridge Community Action *			36,350	
Caldwell Committee for Healthy Families	81,900	(649)		
Caldwell Community College and Technical Institute *	249,800	(3,321)		
Caldwell County Department of Social Services *			26,710	
Caldwell County Health Department *	169,570	(1,140)	35,217	
Caldwell County Public Library *	5,000	(21)	3,867	
Caldwell County Schools *	203,000	(5,597)	60,854	
Childcare Connections of Burke County *	419,000	(41,477)	23,119	
Foothills Area Mental Health, Developmental Disabilities and Substance Abuse Authority *	38,000			
Shelter Home of Caldwell County	10,650			
The Riddle Institute, Inc. *	242,000		4,781	
Volunteer Families for Children-North Carolina	4,950			
	\$ 1,423,870	\$ (52,205)	\$ 218,098	\$ 0
<i>Individuals:</i>				
Child Care Transportation	1,659			
Insurance Benefit Package for Providers	104,456			
	\$ 106,115	\$ 0	\$ 0	\$ 0
	\$ 1,529,985	\$ (52,205)	\$ 218,098	\$ 0

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

***Communities in Schools of Caldwell County
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2003***

Schedule 2

Organization Name		DHHS Contract
Caldwell County Department of Social Services	*	\$ 869,440
* This organization is represented on the Communities in School 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 the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.		

Communities in Schools of Caldwell County
Schedule of Federal and State Awards - Modified Cash Basis
For the Year Ended June 30, 2003

Schedule 3

Federal/State Grantor/Pass-through Grantor/Program	Federal CFDA Number	Contract #	Receipts	Expenditures
Federal Awards:				
Department of Health and Human Services Administration for Children and Families Early Learning Opportunities Act Discretionary Grant Program	93.577	* 90LO0034/01	\$ 283,360	\$ 281,966
US Department of Justice Pass-through from the Corporation for National Service Pass-through from Communities in School, Inc. Scholarship Training Program	N/A	02SPHVA003	1,653	1,616
Pass-through from the Office of Juvenile Justice and Delinquency Prevention Pass-through from Communities in School, Inc. Families and Schools Together-FAST Program	N/A	2001-JF-FX-K001	3,070	1,773
US Department of Education Pass-through from the North Carolina Department of Public Instruction Pass-through from Caldwell County Schools Title I Grants to Local Educational Agencies Parents as Teachers Program	84.010A	N/A	7,000	7,000
Total Federal Awards			295,083	292,355
State Awards:				
North Carolina Department of Juvenile Justice and Delinquency Prevention Pass-through from the Communities in Schools of North Carolina, Inc. Basic Grant Program		N/A	6,664	6,664
Pass-through from Caldwell County Families and Schools Together-FAST Program		N/A	13,735	13,735
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) Early Childhood Initiatives Program (Current Year) Multi-County Accounting and Contracting Grant		1-12-1-02-001 * N/A N/A	(18,723) 1,745,273 12,000	1,685,728 12,000
North Carolina Department of Health and Human Services More at Four Pre-Kindergarten Program		2090003398	102,650	102,650
Total State Awards			1,861,599	1,820,777
Total Federal and State Awards			\$ 2,156,682	\$ 2,113,132

* 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.

Communities in Schools of Caldwell County

Schedule of Property and Equipment - Modified Cash Basis

For the Year Ended June 30, 2003

Schedule 4

Furniture and Noncomputer Equipment	\$	2,994
Computer Equipment/Printers		35,199
Motor Vehicles		166,069
		<hr/>
Total Property and Equipment	\$	<u>204,262</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. The valuations represent historical cost. On the modified basis of accounting, these items are expensed in the year of purchase.

***Communities in Schools of Caldwell County
Schedule of Qualifying Match (Non-GAAP)
For the Year Ended June 30, 2003***

Schedule 5

Match Provided at the Partnership Level:

Cash	\$ 368,730
In-Kind Goods and Services	925
	<u>\$ 369,655</u>

Match Provided at the Contractor Level:

Cash	\$ 189,639
In-Kind Goods and Services	23,557
	<u>\$ 213,196</u>

Note: This schedule is presented in accordance with the program match requirement as provided for by North Carolina Session Law 2001-424, Section 21.72(c). 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.
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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

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

Board of Directors
Communities in Schools of Caldwell County
Lenoir, North Carolina

We have audited the financial statements of the Communities in Schools of Caldwell County (CIS of Caldwell County) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 31, 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 Communities in Schools of Caldwell County'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 CIS of Caldwell County'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 related to significant deficiencies in the design or operation of the internal control over financial

**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)**

reporting that, in our judgment, could adversely affect the CIS of Caldwell County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

Finding

1. Accounting System
2. Internal Control

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

This report is intended solely for the information and use of the management of the CIS of Caldwell County, 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 31, 2003

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

1. ACCOUNTING SYSTEM

Our review of the operations of the CIS of Caldwell County Partnership determined that the accounting system(s) were fragmented and not supportive of a strong system of internal control. Examples of the deficiencies noted include:

- Separate accounting processes existed for three different classifications of funding – Smart Start, non-Smart Start, and Communities in Schools. Policies and procedures for the Partnership did not address transactions other than Smart Start.
- CIS transactions were processed manually and recorded into an off-the-shelf accounting software program that was separate from the MIP (Micro Information Products, Inc.) accounting system used to record the majority of the Partnership’s detailed transactions. Therefore, the CIS financial information had to be rekeyed into the MIP accounting system to present a complete accounting for the Partnership’s financial activities.
- Receipts and expenditures for CIS activities were accounted for in the aggregate rather than by funding source or activity. As such, the accounting records did not support submitted financial reports.

The accounting system consists of the methods and procedures used to record, classify, and report information on the financial position and operations of an entity. A strong system of internal control provides assurances that financial reports and records fairly reflect the entity’s financial transactions.

Recommendation: We recommend that the CIS of Caldwell County Partnership take appropriate steps to strengthen its accounting processes. Policies and procedures should be organizational and not address specific funding types. MIP is a fund based accounting system that is designed to accurately track all financial activities of the Partnership without manual or duplicative processing. The accounting system should be designed to ensure prompt accurate recording of all transactions and regular reconciliation of the general ledger to supporting books and records.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

Partnership's Response:

- At the time of the audit, Smart Start followed Policies and Procedures which allowed the Partnership to follow regulations of the grant provider. As of January 1, 2004, accounting policies and procedures applicable to Smart Start were being applied to all grants (i.e. Recurring Invoice/Payment Requests (RIPRs), check requests and processing by the Multi-Partnership Accounting and Contracting (MAC) site). Communities In Schools is currently following Smart Start accounting procedures until Smart Start receives its own 501(c)(3).
- As of February 1, 2004, Communities In Schools is using the MAC site to process all payments. RIPRs and other forms are used as stipulated in the Accounting Policies and Procedures.
- Communities In Schools is currently using fund accounting.

2. INTERNAL CONTROL

Our review of the internal control processes of the CIS of Caldwell County Partnership identified the following deficiencies:

- Policies and procedures were not in effect for CIS and non-Smart Start transactions. As noted above, accounting policies and procedures addressed Smart Start activities only and these policies were not applied to other types of transactions.
- We noted inadequate segregation of duties as the Financial Manager for Smart Start activities and the Administrative Assistant for CIS had too much responsibility and authority to execute transactions on behalf of the organization. Further segregation and reassignment of duties should occur to strengthen the receipting and disbursing functions for both areas.
- We noted that three of the five bank accounts of the Partnership had at least two separate check sequences, the result of processing both electronic and manual disbursements. We also identified the use of counter checks for one account. The numerous disbursement processes increases the risks for errors to occur and increases the risk that all payments are accounted for properly. In addition, we noted that individuals authorized to write checks also had approval to sign checks.
- We identified payments that were made to grant recipients prior to eligibility verification. Errors were noted with documenting the approval for account classifications prior to entry into the accounting system. In addition, journal entries were not approved by the CIS Director before entry into the accounting records.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Weaknesses in the internal control system affect the Partnership's ability to achieve its goals and objectives and be accountable for its activities. Written policies and procedures, along with actual operating practices, are key components of an effective internal control system. Policies and procedures promote operational efficiency and effectiveness, protect Partnership staff, ensure adherence to prescribed managerial policies, and ensure compliance with applicable policies and regulations.

Recommendation: We recommend that the CIS of Caldwell County Partnership review the current operations of the Partnership. Emphasis should be placed on the implementation of effective policies and procedures to address the authorizing and processing requirements for fiscal accountability; establishing adequate segregation of duties; and having underlying financial records that support the financial disclosures.

Partnership's Response:

- At the time of the audit, Smart Start followed Policies and Procedures which allowed the Partnership to follow regulations of the grant provider. As of January 1, 2004, accounting policies and procedures applicable to Smart Start were being applied to all grants (i.e. RIPRs, check requests and processing by the MAC site). Communities In Schools is currently following Smart Start accounting procedures until Smart Start receives its own 501(c)(3).
- Policies and Procedures are being evaluated to strengthen segregation of duties.
- As of January 1, 2004, all Smart Start checks are being processed by the MAC site. No one has access to blank checks except the MAC accountant. Smart Start has closed all bank accounts except for one interest bearing account. As of February 1, 2004, Communities In Schools is using the MAC site to process all payments. The Smart Start Contracts/Finance Manager still has the authority to sign checks, but no longer has access to blank checks.
- Eligibility for payments to grant recipients is documented prior to payment being made. Journal entries are approved by the Executive Director(s) prior to being entered into MIP.

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March 16, 2004

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