



# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF WASHINGTON COUNTY CHILD ADVOCACY COUNCIL, INC.

PLYMOUTH, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**  
**WASHINGTON COUNTY CHILD ADVOCACY COUNCIL, INC.**

**PLYMOUTH, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2003**

**BOARD OF DIRECTORS**

**VANESSA CHERRY, CHAIRMAN**

**ADMINISTRATIVE OFFICER**

**KAY OVERTON, EXECUTIVE DIRECTOR**



Ralph Campbell, Jr.  
State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Directors, Washington County Child Advocacy Council, Inc.

This report presents the results of our financial statement audit of the Washington County Child Advocacy Council, Inc. (Washington Partnership) 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 Washington 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 Washington 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 Washington Partnership is one of these local partnerships. As such, the Washington Partnership 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)

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2. **Objective** – To present significant deficiencies, if any, in internal control over financial reporting which could adversely affect the Washington Partnership'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 or noncompliance with laws, regulations, contracts, or grants.

### **Finding**

1. Policies and Procedures
2. Contract Management and Monitoring

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  
Washington County Child Advocacy Council, Inc.  
Plymouth, North Carolina

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Washington County Child Advocacy Council, Inc. (Washington Partnership) 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 Washington 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 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 Washington County Child Advocacy Council, Inc. 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 April 29, 2004 on our consideration of the Washington 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 Washington County Child Advocacy Council, Inc. taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in 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 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

April 29, 2004

**Washington County Child Advocacy Council, Inc.****Statement of Receipts, Expenditures, and Net Assets - Modified Cash Basis****For the Year Ended June 30, 2003****Exhibit A**

	Unrestricted Funds		Temporarily Restricted Funds	Total Funds
	Smart Start Fund	Other Funds		
<b>Receipts:</b>				
State Awards (less refunds of \$16,146)	\$ 256,101	\$ 11,833	\$ 0	\$ 267,934
Private Contributions		664		664
Interest and Investment Earnings		446		446
Sales Tax Refunds		1,408		1,408
Other Receipts		948		948
<b>Total Receipts</b>	<b>256,101</b>	<b>15,299</b>		<b>271,400</b>
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		241	(241)	
	<b>256,101</b>	<b>15,540</b>	<b>(241)</b>	<b>271,400</b>
<b>Expenditures:</b>				
Programs:				
Child Care and Education Quality	96,684			96,684
Child Care and Education Affordability	28,600			28,600
Family Support	48,905			48,905
Support:				
Management and General	88,063	12,470		100,533
Other:				
Sales Tax Paid		1,257		1,257
Refund of Prior Year Grant		3,438		3,438
<b>Total Expenditures</b>	<b>262,252</b>	<b>17,165</b>		<b>279,417</b>
<b>Excess of Receipts Over Expenditures</b>	<b>(6,151)</b>	<b>(1,625)</b>	<b>(241)</b>	<b>(8,017)</b>
<b>Net Assets at Beginning of Year</b>	<b>13,733</b>	<b>23,196</b>	<b>241</b>	<b>37,170</b>
<b>Net Assets at End of Year</b>	<b>\$ 7,582</b>	<b>\$ 21,571</b>	<b>\$ 0</b>	<b>\$ 29,153</b>
<b>Net Assets Consisted of:</b>				
Cash and Cash Equivalents	\$ 6,580	\$ 21,571	\$ 0	\$ 28,151
Refunds Due From Contractors	1,002			1,002
	<b>\$ 7,582</b>	<b>\$ 21,571</b>	<b>\$ 0</b>	<b>\$ 29,153</b>

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



*Washington County Child Advocacy Council, Inc.*  
*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
<b>Smart Start Fund:</b>									
<b>Programs:</b>									
Child Care and Education Quality	\$ 96,684	52,134	2,480	1,144	8,554	2,791	1,335	26,716	1,530
Child Care and Education Affordability	\$ 28,600							28,600	
Family Support	\$ 48,905	751		20	1,586			46,548	
	\$ 174,189	\$ 52,885	\$ 2,480	\$ 1,164	\$ 10,140	\$ 2,791	\$ 1,335	\$ 101,864	\$ 1,530
<b>Support:</b>									
Management and General	\$ 88,063	\$ 68,550	\$ 504	\$ 841	\$ 8,269	\$ 9,700	\$ 199	\$ 0	\$ 0
<b>Total Smart Start Fund Expenditures</b>	<b>\$ 262,252</b>	<b>\$ 121,435</b>	<b>\$ 2,984</b>	<b>\$ 2,005</b>	<b>\$ 18,409</b>	<b>\$ 12,491</b>	<b>\$ 1,534</b>	<b>\$ 101,864</b>	<b>\$ 1,530</b>
<b>Other Funds:</b>									
<b>Support:</b>									
Management and General	\$ 12,470	\$ 2,178	\$ 5,137	\$ 234	\$ 741	\$ 1,555	\$ 2,554	\$ 50	\$ 21
<b>Other:</b>									
Sales Tax Paid	\$ 1,257			1,257					
Refund of Prior Year Grant	\$ 3,438					3,438			
	\$ 4,695	\$ 0	\$ 0	\$ 1,257	\$ 0	\$ 3,438	\$ 0	\$ 0	\$ 0
<b>Total Other Funds Expenditures</b>	<b>\$ 17,165</b>	<b>\$ 2,178</b>	<b>\$ 5,137</b>	<b>\$ 1,491</b>	<b>\$ 741</b>	<b>\$ 4,993</b>	<b>\$ 2,554</b>	<b>\$ 50</b>	<b>\$ 21</b>

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

**WASHINGTON COUNTY CHILD ADVOCACY COUNCIL, INC.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2003**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Organization and Purpose** - The Washington County Child Advocacy Council, Inc. (Washington Partnership) is a legally separate nonprofit organization incorporated on March 31, 1994. The Washington Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Washington 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 Washington Partnership’s Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

The Washington Partnership did not have any temporary 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)

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- 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 account, and savings account.
- 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. Compensated Absences** – As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid leave and compensatory time, along with the related employer costs that would be due to employees upon termination is reported as a commitment in Note 9.
- G. Use of Estimates** - The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the Washington Partnership requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as allocation of joint costs); accordingly, actual results could differ from those estimates. It is management's belief that these estimates are reasonable and fair.

### NOTE 2 - DEPOSITS

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

### NOTE 3 - FUNDING FROM GRANT AWARDS

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

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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Associated with these contracts, the Washington 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 North Carolina Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Washington 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 Washington Partnership was awarded and has received \$237,038 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 \$5,971 of this contract to the State based on financial status reports submitted to NCPC subsequent to June 30, 2003.

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 Washington Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Washington Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Partnership's Smart Start Allocation.

### **NOTE 5 - FUNCTIONAL EXPENDITURES**

The costs of providing the various programs and activities have been summarized on a functional basis in the Statement of Receipts, Expenditures, and Net Assets – 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 and the methods utilized to allocate joint cost:

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### 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, salary supplements, and kindergarten orientation/transition.

**Child Care and Education Affordability** - Used to account for service activities associated with public pre-K classes.

**Family Support** - Used to account for service activities including family literacy projects and community outreach information and resources.

### 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.

### 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 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2003:

<u>Fiscal Year</u>	<u>Operating Leases</u>
2004	\$ 9,771
2005	8,340
2006	<u>6,000</u>
Total Minimum Lease Payments	<u>\$ 24,111</u>

Rental expense for all operating leases during the year was \$8,080.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 7 - PENSION PLAN

**Retirement Plans** - The Washington Partnership has a SIMPLE - IRA Plan covering all full-time employees. Each full-time employee of the Washington Partnership has an option to participate in the Plan. An Individual Retirement Account is provided to the employee through an outside financial institution. The Washington Partnership contributed 3% of gross wages for the year ended June 30, 2003; however, there were no employee contributions for the year. The Washington Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

For the year ended June 30, 2003, the Washington Partnership contributed \$901 for pension benefits during the year.

### NOTE 8 - RISK MANAGEMENT

The Washington Partnership 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 Washington Partnership 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

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

### NOTE 9 - COMMITMENTS AND CONTINGENCIES

**Compensated Absences** – As a result of the Washington Partnership's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation only; sick leave does not vest) and any employer-related costs earned and unpaid, are not reflected in the financial statements. The compensated absences commitment for vacation leave at June 30, 2003, is \$2,769. No funds or reservation of net assets has been made for this commitment.

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### NOTE 10 - RESTRICTIONS ON NET ASSETS

Net assets were released from donor restrictions during the fiscal year ended June 30, 2003, by incurring expenditures satisfying the restricted purposes as follows:

Purpose	Amount
Fatherhood Initiatives	\$ 150
Project S.A.F.E. Kids	<u>91</u>
	<u>\$ 241</u>

*Washington County Child Advocacy Council, Inc.*  
*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
Washington County Schools *	84,010	(1,002)		
Various Day Care Providers	11,031			
	<b>\$ 95,041</b>	<b>\$ (1,002)</b>	<b>\$ 0</b>	<b>\$ 0</b>
<i>Individuals:</i>				
Provider Pay Supplements/Educational Incentives	7,075		50	
Diann Blount *	750			
	<b>\$ 7,825</b>	<b>\$ 0</b>	<b>\$ 50</b>	<b>\$ 0</b>
	<b>\$ 102,866</b>	<b>\$ (1,002)</b>	<b>\$ 50</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.				



**Washington County Child Advocacy Council, Inc.**  
**Schedule of State Level Service Provider Contracts**  
**For the Year Ended June 30, 2003**

**Schedule 2**

Organization Name		DHHS Contracts
Washington County Department of Social Services	*	\$ 181,899
* This organization is 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 the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.		

**Washington County Child Advocacy Council, Inc.**  
**Schedule of State Awards - Modified Cash Basis**  
**For the Year Ended June 30, 2003**

**Schedule 3**

State Grantor/Pass-through Grantor/Program	Contract #	Receipts	Expenditures
<b>State Awards:</b>			
North Carolina Department of Health and Human Services			
Division of Child Development			
Pass-through from the North Carolina Partnership for Children, Inc.			
Early Childhood Initiatives Program (Prior Year)	1-12-3-10-001	\$ (13,987)	\$ (120)
Early Childhood Initiatives Program (Current Year)	* N/A	237,038	231,069
Multi-County Accounting and Contracting Grant (Prior Year)	N/A	(167)	
Multi-County Accounting and Contracting Grant (Current Year)	N/A	12,000	11,101
Capacity Building Grant (Prior Year)	1-12-3-10-002	(1,992)	
Capacity Building Grant (Current Year)	* N/A	35,042	31,303
<b>Total State Awards</b>		<b>\$ 267,934</b>	<b>\$ 273,353</b>
* Programs with compliance requirements that have a direct and material effect on the financial statements.			

<i>Washington County Child Advocacy Council, Inc.</i>				
<i>Schedule of Property and Equipment - Modified Cash Basis</i>				
<i>For the Year Ended June 30, 2003</i>				<i>Schedule 4</i>
	Furniture and Noncomputer Equipment	\$	10,737	
	Computer Equipment/Printers		13,838	
	Leasehold Improvements		1,350	
	<b>Total Property and Equipment</b>	<b>\$</b>	<b>25,925</b>	
	<p>Note: The information on this schedule provides a summary of property and equipment with acquisition or donated cost of \$500 or more which were held by the Partnership at year end. The valuations represent historical cost. On the modified basis of accounting, these items are expensed in the year of purchase.</p>			

**Washington County Child Advocacy Council, Inc.**  
**Schedule of Qualifying Match (Non-GAAP)**  
**For the Year Ended June 30, 2003**

**Schedule 5**

**Match Provided at the Partnership Level:**

Cash	\$ 664
In-Kind Goods and Services	29,816
	<u>\$ 30,480</u>

**Match Provided at the Contractor Level:**

Cash	<u>\$ 28,157</u>
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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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**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  
Washington County Child Advocacy Council, Inc.  
Plymouth, North Carolina

We have audited the financial statements of the Washington County Child Advocacy Council, Inc. (Washington Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated April 29, 2004. 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 Washington 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 Washington 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 Washington 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)**

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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. Policies and Procedures
2. Contract Management and 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, of the reportable conditions described above, we consider the following to be a material weakness:

2. Contract Management and Monitoring

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

April 29, 2004

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **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. POLICIES AND PROCEDURES

Our review of the internal control system for the Washington Partnership identified that the policies and procedures were inadequate and lacked the depth necessary to promote the effective and efficient operations of the Partnership.

*Recommendation:* We recommend that the Partnership enhance its internal control system by updating and refining established policies and procedures to be more supportive of a good internal control system.

*Partnership's Response:* The Partnership has revised and enhanced its policies and procedures. They were approved by the board of directors on March 18th 2004.

#### 2. CONTRACT MANAGEMENT AND MONITORING

We identified deficiencies in the contract management and monitoring system of the Washington Partnership that included the following:

- There were no formal grant agreements executed to support disbursements totaling \$11,031 for the quality enhancement activity.
- The Partnership awarded \$7,875 to various day care providers related to the Provider Pay Supplements/Educational Incentives activity. The Partnership was unable to provide documentation to adequately support the eligibility of the recipients of this funding; therefore, all costs are considered to be questioned costs.

*Recommendation:* We recommend that the Washington Partnership place immediate emphasis on correcting procedural weaknesses with its contract management/monitoring activities. All grants should be supported by valid written grant agreements. Eligibility criteria should be documented prior to the disbursement of funds. The Washington Partnership should work with its funding agency, The North Carolina Partnership for Children, Inc., to resolve the above questioned costs.

*Partnership's Response:* The Partnership has revised and enhanced its contract management and monitoring policies and procedures and they were approved by the board of directors on March 18th 2004. The Partnership has discontinued the Provider Pay Supplement/Educational Incentives activity and is working with The North Carolina Partnership for Children, Inc. to resolve the questioned costs.



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In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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	The North Carolina Partnership for Children, Inc.
	Executive Director
Ms. Karen Ponder	The North Carolina Partnership for Children, Inc.

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Mr. James D. Johnson	Director, Fiscal Research Division
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June 23, 2004

## ORDERING INFORMATION

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