

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF WILSON COUNTY PARTNERSHIP FOR CHILDREN

WILSON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

WILSON COUNTY PARTNERSHIP FOR CHILDREN

WILSON, NORTH CAROLINA

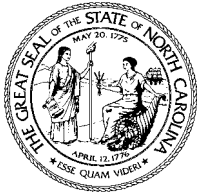
FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

FRANK E. EMORY, CHAIRMAN

ADMINISTRATIVE OFFICER

BRUCE B. TINGLE, 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, Wilson County Partnership for Children

This report presents the results of our financial statement audit of the Wilson County Partnership for Children (Wilson Partnership) for the year ended June 30, 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 Wilson Partnership were subject to audit procedures as we considered necessary for us to report on the accompanying financial statements and supplementary information. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States.

The audit of the Wilson Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by General Statutes 143B-168.10-.16. These statutes created The North Carolina Partnership for Children, Inc. and required the implementation of local demonstration projects (local partnerships). The Wilson Partnership is one of these local partnerships. As such, the Wilson Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have 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 Wilson 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. Contract Management and Monitoring – More at Four
2. Authorizing and Processing of Transactions
3. Control Environment

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

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
EXHIBITS	
A Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis.....	3
B Statement of Functional Expenditures – Modified Cash Basis	4
Notes to the Financial Statements	5
SUPPLEMENTARY SCHEDULES	
1 Schedule of Contract and Grant Expenditures – Modified Cash Basis	11
2 Schedule of State Level Service Provider Contracts.....	12
3 Schedule of Federal and State Awards – Modified Cash Basis	13
4 Schedule of Property and Equipment – Modified Cash Basis	14
5 Schedule of Qualifying Match (Non-GAAP).....	15
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING</i> <i>STANDARDS</i>	17
AUDIT FINDINGS AND RECOMMENDATIONS.....	19
DISTRIBUTION OF AUDIT REPORT	23



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis of the Wilson County Partnership for Children (Wilson 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 Wilson Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying financial statements were prepared on the 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 Wilson County Partnership for Children 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 May 27, 2004 on our consideration of the Wilson Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

Our audit was made for the purpose of forming an opinion on the basic financial statements of the Wilson County Partnership for Children taken as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in 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.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

May 27, 2004

Wilson County Partnership for Children**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		
Receipts:				
State Awards (less refunds of \$29,362)	\$ 556,620	\$ 267,950	\$ 0	\$ 824,570
Federal Awards		5,192		5,192
Private Contributions		180		180
Interest and Investment Earnings		617		617
Sales Tax Refunds		4,770		4,770
Total Receipts	556,620	278,709		835,329
Expenditures:				
Programs:				
Child Care and Education Quality	163,728	1,267		164,995
Health and Safety	96,425			96,425
Family Support	104,105			104,105
More at Four	12,975	258,020		270,995
Support:				
Management and General	143,305	21,983		165,288
Program Coordination	51,065	15		51,080
Other:				
Sales Tax Paid		4,837		4,837
Total Expenditures	571,603	286,122		857,725
Excess of Receipts Over Expenditures	(14,983)	(7,413)		(22,396)
Net Assets at Beginning of Year	29,406	233	25,000	54,639
Net Assets at End of Year	\$ 14,423	\$ (7,180)	\$ 25,000	\$ 32,243
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 14,176	\$ (7,180)	\$ 25,000	\$ 31,996
Refunds Due From Contractors	247			247
	\$ 14,423	\$ (7,180)	\$ 25,000	\$ 32,243
The accompanying notes to the financial statements are an integral part of this statement.				

***Wilson County Partnership for Children
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
Smart Start Fund:									
Programs:									
Child Care and Education Quality	\$ 163,728	41,531	29,228	3,951	16,427	15,034		55,982	1,575
Health and Safety	\$ 96,425							96,425	
Family Support	\$ 104,105							104,105	
More at Four	\$ 12,975		3,000					9,975	
	\$ 377,233	\$ 41,531	\$ 32,228	\$ 3,951	\$ 16,427	\$ 15,034	\$ 0	\$ 266,487	\$ 1,575
Support:									
Management and General	\$ 143,305	112,710	14,072	4,896	7,861	3,016	750		
Program Coordination	\$ 51,065	42,933	1,388	517	3,667	2,560			
	\$ 194,370	\$ 155,643	\$ 15,460	\$ 5,413	\$ 11,528	\$ 5,576	\$ 750	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 571,603	\$ 197,174	\$ 47,688	\$ 9,364	\$ 27,955	\$ 20,610	\$ 750	\$ 266,487	\$ 1,575
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 1,267		690	312	265				
More at Four	\$ 258,020							258,020	
	\$ 259,287	\$ 0	\$ 690	\$ 312	\$ 265	\$ 0	\$ 0	\$ 258,020	\$ 0
Support:									
Management and General	\$ 21,983	8,957	12,000		1,026				
Program Coordination	\$ 15			6	9				
	\$ 21,998	\$ 8,957	\$ 12,000	\$ 6	\$ 1,035	\$ 0	\$ 0	\$ 0	\$ 0
Other:									
Sales Tax Paid	\$ 4,837	\$ 0	\$ 0	\$ 4,837	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 286,122	\$ 8,957	\$ 12,690	\$ 5,155	\$ 1,300	\$ 0	\$ 0	\$ 258,020	\$ 0

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

WILSON COUNTY PARTNERSHIP FOR CHILDREN
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose - The Wilson County Partnership for Children (Wilson Partnership) is a legally separate nonprofit organization incorporated on October 11, 1994. The Wilson Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Wilson Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.

B. Basis of Presentation – The accompanying financial statements present all funds for which the Wilson Partnership's Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

Contributions that are temporarily restricted and not expended within the year received are reported as an increase in temporarily restricted net assets. When the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Receipts, Expenditures, and Net Assets as net assets released from restrictions.

The Wilson Partnership did not have any permanently restricted net assets at June 30, 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.

NOTES TO THE FINANCIAL STATEMENTS (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. In addition, amounts withheld from employee paychecks or other amounts received in an agency capacity are recorded as funds held for others.

- D. Cash and Cash Equivalents** – This classification appears on the Statement of Receipts, Expenditures, and Net Assets – Modified Cash Basis and consists of cash on deposit with a private bank account and money market 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 Wilson 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 Wilson Partnership are deposited with a commercial bank and insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. Deposits over this amount subjects the Wilson Partnership to a concentration of credit risk

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Wilson Partnership's major source of revenue and support is from the State of North Carolina based on cost-reimbursement contracts with the North Carolina Partnership for Children, Inc. (NCPC) for

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the Smart Start Program. A significant reduction in the level of funding from the State could have an adverse effect on the operations of the Wilson Partnership and represents a concentration of credit risk as to the generation of revenue.

Associated with these contracts, the Wilson Partnership is responsible for developing a comprehensive, collaborative, long-range plan of services to children and families for the service-delivery area. During the year, the Department of Health and Human Services (DHHS) entered into contracts with and made payments to service providers selected by the Wilson Partnership. These service provider contracts are not reflected on the accompanying financial statements. However, a summary of the service provider contracts entered into by DHHS is presented on Schedule 2 accompanying the financial statements.

The Wilson Partnership was awarded and has received \$585,982 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 \$15,465 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.

More at Four – The Wilson Partnership also received revenue and support from the State of North Carolina for the More at Four Program. The Wilson Partnership was awarded \$265,500 and has received \$255,950 under a current year cost-reimbursement contract. The unexpended balance of this contract is subject to reversion to the State. The Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

Service Provider Contracts with Board Member Organizations - The board members of the Wilson Partnership are representative of various organizations that benefit from actions taken by the Board. It is the policy of the Wilson Partnership that board members not be involved with decisions regarding organizations they represent. During the year, the Partnership entered into contracts with board member organizations for program activities as identified on Schedule 1 accompanying the financial statements. In addition, Schedule 2 identifies contracts entered into by DHHS with board member organizations for activities funded by the Partnership'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 and the methods utilized to allocate joint cost:

A. Program Functions

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

Health and Safety - Used to account for service activities including prenatal/newborn services or child abuse and neglect intervention.

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

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

B. Support Functions

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

Program 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 including occupancy cost (rent, utilities and maintenance) and communication costs (telephone and printing) were allocated based on utilization data.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	\$ 3,036
2005	3,036
2006	3,036
2007	1,880
Total Minimum Lease Payments	<u>\$ 10,988</u>

Rental expense for all operating leases during the year was \$5,564.

NOTE 7 - PENSION PLAN

Deferred Compensation and Supplemental Retirement Income Plans - IRC Section 403(b) Plan - All employees can participate in a tax sheltered annuity plan (Plan) created under Internal Revenue Code Section 403(b). The Plan is a defined contribution plan in which each employee of the Wilson Partnership, as a condition of employment, is provided an individual annuity through an outside insurance company. The Wilson Partnership contributed 6.81% of gross wages for the year ended June 30, 2003. The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These Plans are exclusively for employees of universities and certain charitable and other nonprofit organizations. All costs of administering and funding these Plans are the responsibility of the Plan participants. No costs are incurred by the Wilson Partnership.

For the year ended June 30, 2003, the Wilson Partnership contributed \$9,921 for retirement benefits during the year.

NOTE 8 - RISK MANAGEMENT

The Wilson 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 Wilson Partnership manages these various risks of loss as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

<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 Wilson 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 Wilson 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 \$3,950. No funds or reservation of net assets has been made for this commitment.

NOTE 10 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at June 30, 2003 are available for the following purposes:

<u>Purpose</u>	<u>Amount</u>
BB&T – Dental Clinic	<u>\$ 25,000</u>

***Wilson County Partnership for Children
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
Fairplay / JSL Development Center	1,832		55,874	
Kidsworld Learning Center	6,703		159,166	
Positive Change for Youth	43,422	(3)		
Science Museums of Wilson	54,632			
Wee School Child Development Center *	1,439		42,980	
Wesley Shelter *	104,336	(231)		
Wilson County Cooperative Extension Service *	53,020	(13)		
	\$ 265,384	\$ (247)	\$ 258,020	\$ 0
Individuals:				
T.E.A.C.H. Program Payments	\$ 1,350	\$ 0	\$ 0	\$ 0
	\$ 266,734	\$ (247)	\$ 258,020	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

***Wilson County Partnership for Children
Schedule of State Level Service Provider Contracts
For the Year Ended June 30, 2003***

Schedule 2

Organization Name		DHHS Contracts
Child Care Services Association - WAGES Program		130,166
Wilson County Department of Social Services	*	1,146,893
		\$ 1,277,059
<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 the North Carolina Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.</p>		

Wilson County Partnership for Children**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:				
US Department of Labor				
Pass-through from the North Carolina Department of Health and Human Services - Division of Aging				
Pass-through from the Upper Coastal Plain Council of Governments				
Senior Community Service Employment Program	17.235	N/A	\$ 5,192	\$ 5,650
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)		Various	(29,362)	(114)
Early Childhood Initiatives Program (Current Year)	*	N/A	585,982	571,717
Multi-County Accounting and Contracting Grant		N/A	12,000	12,000
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program	*	2090003395	255,950	255,950
Total State Awards			824,570	839,553
Total Federal and State Awards			\$ 829,762	\$ 845,203
* Programs with compliance requirements that have a direct and material effect on the financial statements.				

<i>Wilson County Partnership for Children</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	\$	33,853	
	Computer Equipment/Printers		21,970	
	Buildings		133,995	
	Leasehold Improvements		41,991	
	Total Property and Equipment	\$	231,809	
	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.			

<i>Wilson County Partnership for Children</i>			
<i>Schedule of Qualifying Match (Non-GAAP)</i>			
<i>For the Year Ended June 30, 2003</i>			<i>Schedule 5</i>
<i>Match Provided at the Partnership Level:</i>			
Cash	\$	230	
In-Kind Goods and Services		5,643	
	\$	5,873	
<i>Match Provided at the Contractor Level:</i>			
Cash	\$	190,763	
In-Kind Goods and Services		33,919	
	\$	224,682	
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**

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

We have audited the financial statements of the Wilson County Partnership for Children (Wilson Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated May 27, 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 Wilson Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wilson Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Wilson Partnership's ability to

**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. The reportable conditions noted as a result of our audit are described in the Audit Findings and Recommendations section of this report:

Finding

1. Contract Management and Monitoring – More at Four
2. Authorizing and Processing of Transactions
3. Control Environment

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

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



Ralph Campbell, Jr.
State Auditor

May 27, 2004

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 or noncompliance with laws, regulations, contracts, or grants. Finding number 2 was reported in the prior year.

1. CONTRACT MANAGEMENT AND MONITORING – MORE AT FOUR

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

- Documentation to support the eligibility of children in the program was limited or not consistently available. Difficulties were noted in determining the final “at risk” assessment of the children, which defines the priority level for each child’s entrance into the program.
- Child health assessments were not performed in accordance with program requirements.
- Funding to day care providers within the program consisted of both More at Four and Smart Start funds. The Partnership failed to include the Smart Start funding in its provider agreements resulting in contract overpayments totaling \$10,197.

The More at Four activity is a voluntary prekindergarten program for at-risk four-year olds with program guidelines established by the Office of the Governor. In addition to the children being considered “at-risk”, the program also requires health assessments for children entering the program.

Recommendation: We recommend that the Wilson Partnership enhance its monitoring and documentation of compliance with the More at Four program eligibility requirements. In addition, the Partnership should ensure that its contract documents address all funding sources in its contract agreements.

Partnership’s Response: The coordinator for the More at Four Program has worked closer with the centers to ensure the guidelines are being followed. The coordinator has visited the sites several times during each month of the school year and the last day of each month to pick up attendance sheets. The coordinator completed the Model I Risk Factor sheet before a child was approved for the program. It was a requirement of directors of the centers to ensure that parents received information on health assessments and that these assessments were completed. An inventory sheet was completed by each center to show that required information was included in each child’s folder.

AUDIT FINDINGS AND RECOMMENDATIONS (CONTINUED)

2. AUTHORIZING AND PROCESSING TRANSACTIONS

During the audit, we identified procedural weaknesses with the Wilson Partnership's authorizing and processing of transactions. Issues noted:

- Deficiencies were noted in the purchase order processes. We noted instances where purchases occurred without proper approval or were made prior to the approval date indicated on the purchase order.
- The authorization processes by the Executive Director or members of the Board were deficient. Management approval was not found for any of the journal entry transactions tested and there was no consistent management approval for the bank reconciliation process. The approval processes for Financial Status Reports, which accounted for 61% of total Partnership expenditures, was inadequate.

Proper authorization and processing of transactions provides for fiscal accountability and establishes the necessary documentation standards for the operations of the Partnership.

Recommendation: We recommend that the Wilson Partnership enhance its current internal control processes to ensure that the authorization and processing of transactions is documented in accordance with established policies and procedures.

Partnership's Response: The Wilson County Partnership for Children has since hired a new Fiscal Coordinator. The new fiscal coordinator has worked diligently to obtain the proper management approval on necessary documentation. Currently, the fiscal coordinator is working with The North Carolina Partnership for Children, Inc., to review and revise the policies and procedures. These revised policies and procedures will be submitted to the Board of Directors for review and then approval. The new policies and procedures are being written to further enhance the internal controls.

3. CONTROL ENVIRONMENT

The control environment sets the tone of an organization, influencing the control consciousness of its personnel. It involves management's and the board of directors' attitude, awareness, and actions concerning internal control. During the course of the audit, we identified the following control environment deficiencies:

- Improvements are needed in documenting voting abstentions in the board minutes, particularly due to conflict of interest issues that exist with the funding of Smart Start activities.
- The Partnership has had repeated audit findings during the past audits. The finding related to authorizing and processing transactions was first reported for the fiscal year ended June 30, 2000 and continues for the current reporting period.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

- The Partnership has not provided the required match for a private grant that it received in October 2002. As of May 2004, a balance due remains in the amount of \$3,363. The partnership is aware of the non-compliance with the grant; however, funding has not been found to resolve the issue.

The board's role in any organization is to provide direction and guidance for the operations of the organization. This includes proper oversight of management to ensure Partnership activities are conducted in accordance with the Board's directives as well as applicable laws and regulations.

Recommendation: Attention should be given to addressing the above audit deficiencies to demonstrate the Board's accountability for the Wilson Partnership's actions and its intentions to provide necessary oversight for the Wilson Partnership's operations. Assistance should be sought from The North Carolina Partnership for Children, Inc. in resolving the above issues.

Partnership's Response: The Wilson County Partnership for Children has been participating in the Partnership Improvement Plan for the fiscal year 2003/2004. The Board of Directors has participated in a Board Planning and Development Retreat. During these sessions, board roles and responsibilities, conflict of interest and other issues were brought to the attention of the Board. Since this training, Board members are aware of the conflict and are reminded at each meeting.

There has been some confusion about the recording of abstentions. The Partnership had the understanding that the concern was to record members that approved the motions. However, it has been brought to attention that abstentions are needed due to conflict of interest. A copy of the Conflict of Interest Statement is provided at each meeting. Members who are in conflict remove themselves from the room and the Administrative Assistant records those members abstaining from the vote. Currently, abstentions are being recorded.

The Partnership received a private grant that required a match. The Partnership has requested outside funding for this match but has not resolved this issue. The Partnership is aware of the non-compliance with the grant

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August 19, 2004

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