

STATE OF NORTH CAROLINA

FINANCIAL STATEMENT AUDIT REPORT OF
WAYNE COUNTY PARTNERSHIP FOR CHILDREN
GOLDSBORO, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

FINANCIAL STATEMENT AUDIT REPORT OF

WAYNE COUNTY PARTNERSHIP FOR CHILDREN

GOLDSBORO, NORTH CAROLINA

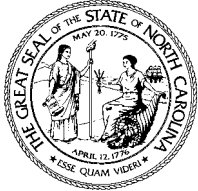
FOR THE YEAR ENDED JUNE 30, 2003

BOARD OF DIRECTORS

JOI FLOWERS, BOARD CHAIR

ADMINISTRATIVE OFFICER

DON MAGOON, EXECUTIVE DIRECTOR



Ralph Campbell, Jr.
State Auditor

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AUDITOR'S TRANSMITTAL

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

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

The audit of the Wayne Partnership was made in conjunction with the Early Childhood Initiatives (Smart Start) program authorized by 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 Wayne Partnership is one of these local partnerships. As such, the Wayne Partnership is a private nonprofit 501(c)(3) organization and is required by General Statute 143B-168.14(b) to have a financial and compliance audit conducted by the State Auditor.

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

1. **Objective** – To express an opinion on the accompanying financial statements and supplementary information.

Results – The accompanying financial statements present fairly, in all material respects, the amounts and disclosures made in accordance with the 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 Wayne 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 significant deficiency was detected in internal control over financial reporting:

Finding

Contract Management – More at Four

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

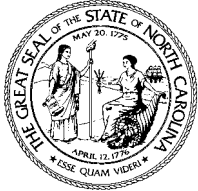
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.



Ralph Campbell, Jr.
State Auditor

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Ralph Campbell, Jr.
State Auditor

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INDEPENDENT AUDITOR'S REPORT

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

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

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

As described in Note 1, the accompanying financial statements were prepared on the 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 Wayne 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 October 3, 2003 on our consideration of the Wayne Partnership's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with the independent auditor's report in considering the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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

October 3, 2003

Wayne 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 \$63,167)	\$ 1,234,049	\$ 507,192	\$ 0	\$ 1,741,241
Federal Awards		2,500		2,500
Private Contributions		4,131	7,280	11,411
Interest and Investment Earnings		1,696		1,696
Sales Tax Refunds		2,864		2,864
Other Receipts		5,718		5,718
Total Receipts	1,234,049	524,101	7,280	1,765,430
Net Assets Released from Restrictions:				
Satisfaction of Program Restrictions		5,520	(5,520)	
	1,234,049	529,621	1,760	1,765,430
Expenditures:				
Programs:				
Child Care and Education Quality	339,081	16,422		355,503
Child Care and Education Affordability	217,155			217,155
Health and Safety	197,782			197,782
Family Support	172,383	801		173,184
More at Four	44,749	488,299		533,048
Support:				
Management and General	175,717	10,544		186,261
Program Coordination	118,560	224		118,784
Other:				
Sales Tax Paid		6,086		6,086
Total Expenditures	1,265,427	522,376		1,787,803
Excess of Receipts Over Expenditures	(31,378)	7,245	1,760	(22,373)
Net Assets at Beginning of Year	62,611	10,117	10,000	82,728
Net Assets at End of Year	\$ 31,233	\$ 17,362	\$ 11,760	\$ 60,355
Net Assets Consisted of:				
Cash and Cash Equivalents	\$ 25,983	\$ 17,362	\$ 11,760	\$ 55,105
Refunds Due From Contractors	5,250			5,250
	\$ 31,233	\$ 17,362	\$ 11,760	\$ 60,355

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

**Wayne 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	\$ 339,081	211,616	4,415	26,665	21,817	4,144	16,115	52,555	1,754
Child Care and Education Affordability	\$ 217,155							217,155	
Health and Safety	\$ 197,782							197,782	
Family Support	\$ 172,383	25,302	317	7,668	5,119	210	4,511	129,256	
More at Four	\$ 44,749	27,232	667	1,566	2,242	73	64	11,680	1,225
	\$ 971,150	\$ 264,150	\$ 5,399	\$ 35,899	\$ 29,178	\$ 4,427	\$ 20,690	\$ 608,428	\$ 2,979
Support:									
Management and General	\$ 175,717	135,783	2,873	3,764	13,931	8,342	11,024		
Program Coordination	\$ 118,560	94,855	11,545	2,265	8,344	603	948		
	\$ 294,277	\$ 230,638	\$ 14,418	\$ 6,029	\$ 22,275	\$ 8,945	\$ 11,972	\$ 0	\$ 0
Total Smart Start Fund Expenditures	\$ 1,265,427	\$ 494,788	\$ 19,817	\$ 41,928	\$ 51,453	\$ 13,372	\$ 32,662	\$ 608,428	\$ 2,979
Other Funds:									
Programs:									
Child Care and Education Quality	\$ 16,422			4,899	3,243		260	8,020	
Family Support	\$ 801			195	306				300
More at Four	\$ 488,299	8,559	69	48	308	150	418	478,747	
	\$ 505,522	\$ 8,559	\$ 69	\$ 5,142	\$ 3,857	\$ 150	\$ 678	\$ 486,767	\$ 300
Support:									
Management and General	\$ 10,544		8,788	1,125	570				61
Program Coordination	\$ 224				224				
	\$ 10,768	\$ 0	\$ 8,788	\$ 1,125	\$ 794	\$ 0	\$ 0	\$ 0	\$ 61
Other:									
Sales Tax Paid	\$ 6,086	\$ 0	\$ 0	\$ 6,086	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Total Other Funds Expenditures	\$ 522,376	\$ 8,559	\$ 8,857	\$ 12,353	\$ 4,651	\$ 150	\$ 678	\$ 486,767	\$ 361

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Organization and Purpose** - The Wayne County Partnership for Children (Wayne Partnership) is a legally separate nonprofit organization incorporated on September 12, 1997. The Wayne Partnership was established to develop and provide, through public and private means, early childhood education and developmental services for children and families. The Wayne Partnership is tax-exempt as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- B. Basis of Presentation** – The accompanying financial statements present all funds for which the Wayne Partnership’s Board of Directors is responsible. Pursuant to the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*, the accompanying financial statements present information according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this Statement, temporarily restricted contributions received and expended in the same year are reported as unrestricted receipts rather than as temporarily restricted receipts.

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

The Wayne Partnership did not have any permanently restricted net assets at June 30, 2003.

- C. Basis of Accounting** - The accompanying financial statements were prepared on the modified cash basis of accounting. This basis differs from generally accepted accounting principles primarily because it recognizes long lived assets and other costs which benefit more than one period as expended in the year purchased; it recognizes revenue when received rather than when earned; and it recognizes expenditures when paid rather than when incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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.
- F. Use of Estimates** - The financial statements include estimates and assumptions made by management for the allocation of joint costs. It is management's belief that these estimates are reasonable and fair.

NOTE 2 - DEPOSITS

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

The Wayne Partnership has a Commercial Checking and Financial Management Account. Funds over an established target amount of \$22,500 are transferred from the Commercial Checking account to the Money Market Savings Investment Account each night for investment purposes. These funds are subject to the same credit risk as identified above.

NOTE 3 - FUNDING FROM GRANT AWARDS

Smart Start Program - The Wayne Partnership's major source of revenue and support is from the State of North Carolina based on cost-reimbursement contracts with the North Carolina Partnership for Children, Inc. (NCPC) for the Smart Start Program. A significant reduction in the level of funding from the State could have an adverse effect on the operations of the Wayne Partnership and represents a concentration of credit risk as to the generation of revenue.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

The Wayne Partnership was awarded and has received \$1,296,660 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 \$30,604 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 Wayne Partnership also received revenue and support from the State of North Carolina for the More At Four Program. The Wayne Partnership was awarded \$529,800 and has received \$495,748 under a current year cost-reimbursement contract. The Partnership expects to receive continued funding through new More at Four contracts with the State.

NOTE 4 - RELATED PARTY TRANSACTIONS

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, and community planning for school readiness.

Child Care and Education Affordability - Used to account for service activities including public pre-K classes and Head Start wraparound.

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

Family Support - Used to account for service activities including ongoing parenting education, literacy projects, and information and resources.

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 were allocated as follows:

Salaries and Benefits - Allocated based on employee time reports.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 7 - PENSION PLAN

A. Retirement Plans - The Wayne Partnership has a Simplified Employee Pension (SEP) plan covering all full-time employees. Each full-time employee of the Wayne Partnership, as a condition of employment, is provided an Individual Retirement Account through an outside insurance company. The Wayne Partnership contributed 5% of gross wages for the year ended June 30, 2003. The Wayne Partnership does not own the accounts nor is liable for any other cost other than the required contribution.

For the year ended June 30, 2003, the Wayne Partnership contributed \$20,300 for pension benefits during the year.

B. IRC Section 403(b) Plan - All permanent employees who are at least half time can participate in a tax sheltered annuity plan created under Internal Revenue Code Section 403(b). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other non-profit organizations. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the Wayne Partnership.

NOTE 8 - RESTRICTIONS ON NET ASSETS

A. Temporarily Restricted Net Assets - Temporarily restricted net assets at June 30, 2003 are available for the following purposes:

Purpose	Amount
Borden Match Program	\$ 7,280
Mount Olive Scholarship Program	4,480
	<u>\$ 11,760</u>

NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

B. Net Assets Released From Donor Restrictions - Net assets were released from donor restrictions during the fiscal year ended June 30, 2003, by incurring expenditures satisfying the restricted purposes as follows:

<u>Purpose</u>	<u>Amount</u>
Mount Olive Scholarship Program	<u>\$ 5,520</u>

*Wayne 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
Bright Beginnings	3,400		51,707	
Happy Days			84,230	
Mount Olive College, Inc.	*		5,520	
North Carolina Cooperative Extension, Wayne County Center	*	98,575 (441)		
Small World	*		59,940	
The Mental Health Association of Wayne County		10,000		
Various		23,968		
Wayne Action Group for Economic Solvency (WAGES)	*	143,380	113,080	
Wayne Community College	*	28,461 (914)		
Wayne County Health Department	*	140,949 (3,822)		
Wayne County Library	*	45,750 (73)		
Wayne County Public Schools	*	118,155	169,790	
Wayne Uplift Resources Association, Inc.		1,040		
	\$ 613,678	\$ (5,250)	\$ 484,267	\$ 0
<i>Individuals:</i>				
Various			2,500	
	\$ 0	\$ 0	\$ 2,500	\$ 0
	\$ 613,678	\$ (5,250)	\$ 486,767	\$ 0
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.				

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

Schedule 2

Organization Name	DHHS Contracts
Child Care Services Association - WAGES Program	\$ 144,088
Wayne County Department of Social Services *	798,790
	\$ 942,878
* These organizations are represented on the Partnership's Board as described in Note 4 - Service Provider Contracts with Board Member Organizations.	
The information on this schedule provides a listing of service provider contracts entered into by the Department of Health and Human Services (DHHS) as described in Note 3 - Funding from Grant Awards.	

Wayne 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:				
U.S. Department of Transportation				
National Highway Traffic Safety Administration				
Pass-through from the Governor's Highway Safety Program				
Pass-through from the North Carolina Department of Insurance				
North Carolina Safe Kids Buckle Up Program	20.602	N/A	\$ 2,500	\$ 2,500
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	(288)	(100)
Early Childhood Initiatives Program (Prior Year)		#1-12-5-34-001	(62,324)	
Early Childhood Initiatives Program (Current Year)	*	#1-23-5-34-001	1,296,660	1,265,527
Multi-County Accounting and Contracting Grant		N/A	12,000	10,038
North Carolina Department of Health and Human Services				
More at Four Pre-Kindergarten Program (Prior Year)		#2090002848	(555)	
More at Four Pre-Kindergarten Program (Current Year)	*	#2090002848	495,748	488,141
Total State Awards			<u>1,741,241</u>	<u>1,763,606</u>
Total Federal and State Awards			<u>\$ 1,743,741</u>	<u>\$ 1,766,106</u>
* Programs with compliance requirements that have a direct and material effect on the financial statements.				
Note: The More at Four Pre-Kindergarten Program is contracted jointly by the North Carolina Department of Health and Human Services and the Office of the Governor. The allocations for the More at Four program are included in the budget for the North Carolina Department of Health and Human Services; therefore, the above schedule identifies that agency as the State Grantor. The Office of the Governor is responsible for oversight of the More at Four Program.				

Wayne County Partnership for Children
Schedule of Property and Equipment - Modified Cash Basis
For the Year Ended June 30, 2003 **Schedule 4**

	Furniture and Non-Computer Equipment	\$	22,102
	Computer Equipment/Printers		74,169
	Buildings		517,171
	Total Property and Equipment	\$	<u>613,442</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.		

**Wayne County Partnership for Children
 Schedule of Qualifying Match (Non-GAAP)
 For the Year Ended June 30, 2003**

Schedule 5

Match Provided at the Partnership Level:

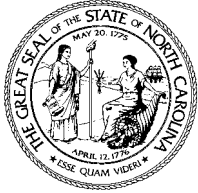
Cash	\$	11,411
In-Kind Goods and Services		13,872
	\$	<u>25,283</u>

Match Provided at the Contractor Level:

Cash	\$	199,199
In-Kind Goods and Services		99,000
	\$	<u>298,199</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.
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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the Wayne County Partnership for Children (Wayne Partnership) as of and for the year ended June 30, 2003, and have issued our report thereon dated October 3, 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 Wayne Partnership's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Wayne Partnership's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

**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)**

A reportable condition involves a matter coming to our attention relating to a significant deficiency in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Wayne Partnership's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition noted as a result of our audit is described in the Audit Findings and Recommendations section of this report:

Finding

Contract Management – More at Four

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

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



Ralph Campbell, Jr.
State Auditor

October 3, 2003

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

CONTRACT MANAGEMENT – MORE AT FOUR

More at Four funding constitutes 45% of the Wayne Partnership's total contract and grant expense. During our review of the More at Four contract activities, we noted the following deficiencies:

- Funds totaling \$91,720 were disbursed to a provider outside of the terms of the contract. The original contract identifies payments to be made “for the purchase of services for the fiscal year 2002-2003 not to exceed \$66,600.” A More at Four provider was paid \$158,320, which consisted of start-up costs and operational costs of \$15,500 and \$142,820, respectively. The Partnership failed to properly amend its contract to authorize these additional payments. In addition, the terms of the contract did not provide for the payment of start-up costs.
- Seven instances were noted where the Partnership did not reimburse the providers in accordance with the contract terms. Reimbursement rates were determined to be \$370 per eligible child each month, with transportation costs to be reimbursed as needed. Our testwork identified both underpayments and overpayments based on the above reimbursement rates.

Recommendation: We recommend that the Partnership enhance its contract management procedures to ensure that contract amendments are properly executed and payments are made in accordance with the terms of its contracts.

Partnership's Response: It should be noted that we failed to properly amend the contract during the first week of the current Executive Director's employment, as he was confident that his predecessor had done the required amendment. However, all payments made to the subcontractor were legitimate and within the contract between the Partnership and the More at Four Office, and all services for which those payments were made were in fact received. This implies that both parties agreed to the terms and conditions, which simply had not been documented in a properly executed contract in writing. Also, it should be noted that while payment errors were made, neither the Partnership's internal monitoring nor the seven instances of over or underpayment detected in the State audit indicated that any material discrepancies existed. We understand that with any audit, only the transactions actually reviewed are verified by the auditors and that errors could exist in other transactions that were not part of the samples selected.

AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)

Contract management has been enhanced for all contracts. Each contract now has a summary sheet that outlines the nature and cost associated with each contract and amendment. The summary sheet for subcontract can be easily reconciled to the summary sheet for the More at Four and Smart Start contracts to verify that subcontract amendments are properly executed. More at Four attendance sheets now automatically sum the number of eligible children, so there is much less chance of Clerical error. In addition, the Director of Early Care and Education has implemented a crosscheck procedure where another member of her staff verifies the attendance and transportation services reported and checks the totals for reimbursement prior to submitting for approval and payment. Our Monitoring Director has added a check of the figures to his desk audit process and the Executive Director spot checks for accuracy as well. All More at Four transactions for 2002-2003 and 2003-2004 year to date have been reviewed and invoices or credits will be issued to subcontractors for any errors found, including the seven noted in this finding.

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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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January 8, 2004

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